AMERICAN BANKERS Association JOURNAL

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The Golden Gate

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Published in Two Sections—Section One

THE GOLDEN GATE

[THE JOURNAL COVER ILLUSTRATION: FROM A PAINTING BY WALTER DE MARIS]

IT was a common practice in the long ago to fix the time for the discharge of commercial obligations with the indefinite phrase, "when my ship comes in."

A vague and dreamy expression, meaning little to most people today, it was a definite and acceptable statement of fact and custom in other generations.

Owners sent their craft adventuring through the far seas and the owner's creditors usually had to await the return of the vessel for the full discharge of obligations incurred.

Many such expected and hoped-for ships came in through the Golden Gate—down from the whaling grounds of the North, up from the South Seas and the other side of the world—and with their coming credits were met and out of their successes new credits were established.

Though San Francisco thinks of this harbor entrance as peculiarly its own, the whole nation has a certain proprietary interest in it, for it is the place where many a good tale of the sea begins and where other stories happily end. But more than that it was and is the gateway through which a long list of valued commodities pass on their way from the Orient to the whole of the United States and, consequently, a gateway through which the economic tide as well as the ocean tide unceasingly ebbs and flows—ships and merchandise floated by credit no less than by the waves.

The name arises not from the precious metal with which the name of California has so long been associated, but from the circumstance that the declining sun so often floods this reach of water with a golden glow such as is portrayed on the cover of this issue of the JOURNAL.

FOR this painting Mr. de Maris chose one of the sailing vessels of a type that before the development of steamships was as important a factor, relatively, in commerce as are the modern ships.

They still go in and out of the Golden Gate, as well as all other great ports, and still stimulate the imagination of those who delight in the annals of those times when they were the bearers of all the commerce of the seas.

This Month's Journal *and* Your Own Bank

IN what part of banking are you especially interested? In the following pages you will find much that pertains to your own particular kind of banking, for this issue reports the Annual Convention of the American Bankers Association held in San Francisco Sept. 30-Oct. 3, where the whole wide range of banking received attention and discussion.

Strictly speaking, this annual meeting is a group of conventions, none of which overlap the other either in point of time or in the subject matter under consideration. There are three sessions of the main, or general Convention and there are also Conventions of the Divisions of the American Bankers Association, thereby providing ample opportunity for the discussion of the major themes of banking as a whole, and for more specialized discussion according to the charter set-up of the institutions.

The contents of this issue may therefore be likened to a yearbook with this difference: A yearbook is heavy with statistics and more or less dry facts, whereas this issue reflects the actual thought of many progressive men who have come forward with experiences, ideas, opinions and judgments on banking. It shows the trend of banking thought and indicates what a year may bring forth in banking as well as telling of what banking has done in the year that is past.

We believe that the contents of this issue are of practical money-making value to every banker, big or little, and wherever he may be situated. Often bankers testify that they make money by attending the Conventions; that is, the ideas that they gain are easily transmuted into profit. That is true, but it is equally true those who have not attended the Convention may get the same benefit through the careful perusal of the contents of this issue of the JOURNAL.

Consider for a moment what it offers:

WHAT is the American Bankers Association doing for your bank? There is an adequate answer to that question in the annual address of the retiring President Craig B. Hazlewood in his review of the activities of the Association during the last year. We commend its reading to the members of the Association, and even more urgently to those who are non-members.

What is the next step in legislation in so far as national banks are concerned? It is plain that economic developments have surged around existing laws. For an answer to that read the findings and the opinion of Comptroller of the Currency Pole who unequivocally states that something must be done in recognition of a changed condition in the matter of branch banks.

WHAT of chain and group banking? How many groups are there and where are they located? How much capital do they control?

Outstanding among the features of Convention was the answer which Rudolf S. Hecht of New Orleans, Chairman of the Economic Policy Commission made to those questions in an address summarizing an exhaustive study which the Commission has made of this subject—the first real measurement of this trend in banking ever given to the fraternity. It is both impressive and valuable and especially significant at this time, because it concerns a movement that is still in full tide—not an economic phenomenon that has occurred and is over. The discussion of that subject is well rounded out in two other

articles—one by G. O. Hammond of Helena, Mont., and the other by Andrew Price of Seattle, Wash.

And then there is the unit side of banking ably discussed by George W. Davison of New York City and by Max B. Nahm of Bowling Green, Ky., with an intriguing bit of human interest in the latter.

ARE you a national banker? Then of timely interest is the discussion of "Consolidations as Affecting Trust Departments" By W. H. Rand, Jr., of the Atlantic National Bank, Boston; "Investment Policy of a National Bank" By Arch W. Anderson of the Security-First National of Los Angeles, and "National Banking Trend" by George H. Hamilton, vice-president, Fourth National Bank of Wichita, Kan.

HE who manages a trust department must stand on an eminence of knowledge and of ability if he is to accomplish the three obvious objectives of fiduciary business:

(1) protect, conserve, increase the interests of the customer;

(2) protect the bank while conducting a profitable department;

(3) develop the business in an age of unprecedented opportunity for this class of service.

There are three papers in this issue which will help—"The Growing Importance of the Trust Department in the Modern Bank," by James A. Bacigalupi, president of the Bank of Italy National Trust and Savings Association, San Francisco; "The Business Insurance Trust," by Hillsman Taylor, president of the Missouri State Life Insurance Co., St. Louis, and "Protecting the Trustee," by Herman Phleger, attorney of San Francisco.

SAVINGS bankers will follow with interest "Leasehold Loans for Savings Banks," by Jay Morrison of Seattle, Wash., a subject on which there has not been a lot of current literature, and as safety and profit in investment constitutes the great desideratum in saving banking, as well as in all banking, the discussion of that subject by A. C. Robinson, president of the Peoples Savings & Trust Co., of Pittsburgh, may well be perused with profit.

IS it worth while to cooperate with your neighbors in the banking business?

There are many bankers, especially country bankers, who will tell you that it is very much worth while. Among them is W. L. Brooks, president, Northern National Bank, Bemidji, Minn., who in this issue tells you, as he told a great assemblage in San Francisco, that "Regional Cooperation Pays Dividends." Wherever there is a group of bankers who are not cooperating in the fullest sense of the word they and each of them should take what Mr. Brooks

says to heart—for there is money in his words!

S. L. Cantley, Commissioner of Finance of Missouri, says that "Organized Cooperation is the Basis of Sound Banking." A bank commissioner, being behind the scenes in all state banks in his jurisdiction, is in a position of peculiar advantage, in ferreting out the weaknesses of banking practice. Such an official sees from time to time many a loss and many an embarrassment which might have been avoided through the simple means of closer cooperation between banks of a district or a region.

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IN the convention of the State Bank Division, the three outstanding forms of banking were presented with regard to their influence on agriculture. M. Plin Beebe, president of the Bank of Ipswich, N. D., tells why, in his opinion, unit banking is best for agriculture; E. G. Bennett, manager of the First Security Corporation of Ogden, Utah, tells why group banking is best for agriculture and Clyde Hendrix, president of the Tennessee Valley Bank, Decatur, Ala., tells why he thinks limited Branch Banking is best for agriculture. These three views are of more than passing interest in this period when so many are earnestly trying to find out for themselves which form of banking is best adapted to the needs of the community the banker serves.

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THE secretaries of the various State Bankers Associations, like bank commissioners and examiners, cover a wide range of banking interests and have special advantages for observing trends and reactions in the business. In their session they gave the results of various activities, each highly important to banking in which they have been engaged.

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AND among all this matter do not overlook the monthly review under the customary heading, "The Condition of Business." It is a valuable analysis of business at the close of the summer season—a clear presentation of the direction of several very pronounced trends in the banking and commercial activity of the nation.

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JOURNAL readers will be interested, we are sure, in the fact that this, the October issue, is as large in number of pages as we have ever published. The advertising, which has been growing steadily, reaches a new high point in this issue, and it is encouraging to note the increasing number of advertisers who are choosing the Journal as a medium through which to talk to the bankers of the country. The messages of these advertisers we believe to be of interest to all bankers since these messages keep before you meritorious products and services both new and old that are of interest to you as a banker or in your personal and private capacity as an outstanding man in the community.

AMERICAN BANKERS ASSOCIATION JOURNAL

Banking Goes Forward

San Francisco Convention Unqualifiedly Undertakes the Task of Maintaining American Banking Upon the Path of Progress By Continued Insistence Upon Scientific Management and the Readiness to Inquire Into Best Type of Banking Structure.

PREPAREDNESS for progress in the direction which will best serve the economic needs of the country was the spirit of staunch fidelity which cast its glow over the Fifty-fifth Annual Convention of the American Bankers Association held in San Francisco from Sept. 30 to Oct. 3, 1929.

Fully and frankly the Convention discussed the great question of the moment—the relative merits of branch, chain and unit banking. Exhaustive consideration of the subject was given by the various Divisions and Sections of the Association at their meetings.

Calmly and judicially the Convention accepted the challenge flung forth by the Comptroller of the Currency that the force of economic circumstance demands branch banking, within selected areas, for national banks. Holding the national interest paramount, the Convention voted unanimously to go forward step by step with Congress in any investigation of the subject through its Economic Policy Committee to the end that all classes of the membership of the Association might be represented in the determination of what system, or systems, of banking is best for the United States.

Despite the play of change and adjustment which hovers about the structure of banking, the Convention registered the undeterred purpose of the Association to continue the sweeping progress toward the maximum of efficiency in banking service through the spread of the doctrine of scientific management. The record of the past year in the inculcation of better bank management was surveyed and found good. Unstinted adherence to the principle was pledged for the coming year.

Ever mindful of the life-blood of banking, which is credit, the Convention faced squarely the unsolved problem of brokers' loans and the possibilities of greater stability for money rates. Turning a deaf ear to the suggestions which have been made for Federal legislation affecting credit, the Association called upon those who provide and those who use the credit which is the basis of brokers' loans to consider wherein changes in procedure may be necessary.

Few of the annual assemblies of the Association have been confronted with such essentially banking problems as the San Francisco Convention. None has exceeded it in whole-hearted attention to the work to be done. Ofttimes international factors have compelled the Convention to make an almost world-wide survey of banking. This year the issues at home exceeded all others in importance.

Hence, the Fifty-fifth Annual Convention confined itself to the two great topics, management and the changes in the banking structure. No angle of either subject was left untouched, no pathway unexplored.

In the meetings of the Divisions and Sections the records of the past year were unrolled. There were presented the factual evidences of the fundamental strength and virility of American banking. There were discussed the policies for further progress in the administration of the institutions of the country.

Linked with the recognition of the science of management as the torchlight of better banking there was evident expansion of the idea that he who uses the service of a bank should pay as he goes. Always in the deliberations of the different classes of banks the element of cost was kept clearly in sight. Meetings of the Divisions and Sections were replete with clear-cut analyses of the channels of expense and the measures of earnings.

Perhaps more than ever before, the Association has accepted the theory that proper charges for banking facilities are prerequisites to stability

and profits. A readiness to go along with the installation of adequate charges was reflected by the Convention.

Despite the uninterrupted march of the mergers in the field of banking, the Convention never lost sight of the problems of the smaller banks. Much of the technical side of banking which was studied at various meetings was surveyed through the eyes of the country bank.

Preeminent in the concern of the Convention were the needs of agriculture. Solicitude was felt both for the general improvement of conditions in the farming communities and for the insurance of the best for agriculture in whatever changes may be made in the banking structure of the country.

Confidence in the prosperity of the country was an attribute of the Convention. There was visible a willingness to face the future unafraid. Back of this confidence was an unshakeable belief in the soundness of American banking and a reliance upon the ability of the banks to shape their courses for the good of the national commonwealth.

There were 4567 delegates. They came from all parts of the United States. Many of them followed, by rail, the trails of the covered wagons of an earlier day to mingle with their colleagues whose forefathers made the journey in the covered wagons which broke the trail to the Pacific Coast. Assembled from the four corners of the nation, the delegates to the Fifty-fifth Annual Convention met in a fellowship which enabled an unbiased and impartial judgment to be rendered upon all of the questions which stand before banking.

The General Sessions of the Convention

ALTERATION of the structure of the American Bankers Association was effected at the first general session of the Fifty-fifth Annual Convention which was convened Tuesday morning in the Curran Theater, San Francisco, by Craig B. Hazlewood, President of the Association.

By a unanimous vote the Convention amended the Constitution of the Association to abolish the Clearinghouse Section and establish in its stead a Commission on Banking Practices and Clearinghouse Functions. Hal Y. Lemon, vice-president of the Commerce Trust Company of Kansas City, was appointed chairman of the commission.

Progress the Keynote

PROGRESS in the spread of principles of scientific bank management was the keynote of the annual address of the President of the Association. Mr. Hazlewood's address appears elsewhere in this issue of the JOURNAL. The subject was analyzed critically by H. N. Stronck, chairman of the H. N. Stronck Company, Chicago, who spoke on "An Approach to the Problems of Bank Management." His address appears elsewhere in this issue.

The Convention also heard a special address by Robert L. Gordon, winner of the Giannini Endowment Fund First Prize for the National Speaking Contest of the American Institute of Banking.

A report of the official acts and proceedings of the Executive Committee was read by William G. Fitzwilson, Secretary of the Association.

Resolutions of respect and tribute to two former Presidents of the Association who died during the year, Myron T. Herrick and Charles A. Hinch, were adopted.

The committee on resolutions of the Convention was named by President Hazlewood as follows:

Frank M. Law, Houston, Tex., Chairman; Rudolf S. Hecht, president Hibernia Bank & Trust Co., New Orleans; H. J. Haas, vice-president First National Bank, Philadelphia; Austin McLanahan, president Savings Bank of Baltimore, Baltimore; Dan V. Stephens, president Fremont State Bank, Fremont, Neb.; John C. Mechem, vice-president First Union Trust & Savings Bank, Chicago; Ben B. Aley, vice-president The United States National Bank, Denver; H. Y. Lemon, vice-president Commerce Trust Company, Kansas City, Mo.; M. A. Graettinger, secretary Illinois Bankers Association, Chicago; Burton M. Smith, president Bank of North Lake, North Lake, Wis.; Fred I. Kent, chairman Commerce & Marine Commission, New York City; J. H. Puelicher, president Marshall & Ilsley Bank, Milwaukee; Charles Cason, C. V. Bob & Co., New York; Thomas B. Paton, general counsel, American Bankers' Association, New York; Herbert V. Prochnow, First National Bank, Chicago, secretary.

The Second Session

JOHN G. LONSDALE, president of the Mercantile-Commerce Bank and Trust Company, St. Louis, was elected President of the American Bankers Association for the year 1929-1930 at the second general session of the Convention which met Wednesday morning, October 2.

Rome C. Stephenson, vice-president of the St. Joseph County Savings Bank, South Bend, Ind., was elected First Vice-President and Harry J. Haas, vice-president of the First National Bank, Philadelphia, was elected Second Vice-President. Grant McPherrin, president of the Central National Bank and Trust Company, Des Moines, Iowa, was named Treasurer.

The delegates to the Fifty-fifth Annual Convention of the American Bankers Association were welcomed to California at the second session by Governor C. C. Young, of California.

J. W. Pole, Comptroller of the Currency, made known at the second session his ideas of the need for branch banking by national banks in selected economic areas. His address appears elsewhere in this issue. The extent of chain banking throughout the country was reported by R. S. Hecht, chairman of the Economic Policy Commission. His report appears elsewhere. T. O. Hammond, vice-president of the National Bank of Montana, Helena, described the expansion of group banking in the Northwest and Andrew Price, president of the Marine Bancorporation, Seattle, spoke on group banking as a step in the evolution of American banking.

The Third Session

AN invitation for the Association to go to Cleveland, Ohio, for its Convention in 1930 was extended at the third session by Joseph R. Kraus, vice-president of the Union Trust Company of Cleveland. The invitation was referred to the Administrative Committee of the Association.

The session was addressed on banking evolution in America by George W. Davison, president Central Hanover Bank and Trust Company, of New York. His address appears elsewhere in this issue.

Max B. Nahm, vice-president of the Citizens National Bank, of Bowling Green, Ky., was prevented by illness from delivering his address on old-fashioned unit banking. His address, which appears elsewhere in this issue, was read by William G. Edens, vice-president, Central Trust Company of Illinois, of Chicago.

Officers Installed

THE new officers of the Association were introduced to the Convention by Mr. Hazlewood who pinned upon them their badges of office. In assuming office President Lonsdale said:

"It is indeed a wonderful privilege to be able to work shoulder to shoulder with men of your financial wisdom and vision in seeking to solve the problems that confront us, and I want you to know that I greatly appreciate the high honor you have bestowed upon me. It shall be my earnest endeavor as your President to fully live up to the confidence thus imposed in me.

"It shall be my purpose in the succeeding twelve months to carry out a program of constructive activity, not only for the uplift of our Association but for the betterment of conditions and basic principles that underlie the business of banking. In this task, I must depend upon you for support, and I feel certain that each of you will respond when called upon to put his shoulder to the wheel.

Abiding Faith

"OUR new administration enters upon its duties at a time when we are in the midst of unparalleled prosperity and when economic conditions appear generally sound; yet prosperity has its problems.

"One of these, as we all know, is agriculture, our basic industry. Although conditions surrounding it have improved considerably, it has not yet reached a satisfactory stage of advancement, when compared with other industries. With the Federal Farm Board now actively at work, it is my earnest hope that the constructive steps already taken by it will bear gratifying fruit. Believing the American Bankers Association can be of material benefit to the Farm Board, I desire to go on record here today as pledging to it our aid and cooperation in every way possible.

"Since agriculture and the country bank are inseparably bound together, it is apparent that when the trials and tribulations that have beset the farmer have been conquered, the problems of the country banker largely will be solved also. The country banker has been confronted with a gigantic task in giving financial support to a depressed industry and he deserves endless praise for his courageous and sympathetic attitude. Had it not been for his abiding faith and his determination to stand back of his community, agriculture today would be in a far more serious plight than it is. Whatever our Association can do to benefit the country banker should be done, for his prosperity ultimately affects all of us.

"There has been a great tide of discussion revolving about unit banking, group banking and chain banking. After all the facts have been carefully assembled, and considered in an impartial manner, we hope to see a banking policy evolved by our Congress that will smooth out the troubled waters.

"The cause of educating the public to a better knowledge of banks and their services also will be pushed aggressively in the coming months. To instruct the school children of America in the fundamentals of banking seems to me just as essential as many other studies, since every individual who expects to become successful in life must sooner or later make use of the services of a bank.

"The appointment of two American bankers to help institute the International Bank brings the American Bankers Association face to face with the necessity for an active committee on International Finance. This is America's manifest duty. We must create a cabinet to work out world banking and problems pertinent thereto, possibly the greatest work ever done by the American Bankers Association. The personnel of the Committee on International Finance, which we have chosen to call this new group, will be announced later."

Great Work

ACCEPTING his new office as First Vice-President, Mr. Stephenson said:

"I am keenly appreciative of this renewed confidence that you have expressed in me. I know that the Association is to be congratulated over the great work that has been accomplished during the past year. The slogan of the President has been 'Better Bank Management.' He has never referred to what his slogan really was but the slogan from the very inception of his presidency was 'The Guarantee of Bank Deposits,' because it is only through bank management that deposits in banks can be guaranteed in the same practicable and workable manner of guaranteeing bank deposits.

"I know that the torch that he is about to throw over into the hands of the gentleman who will succeed him will mean that President Lonsdale will continue this great work that has been inaugurated by President Hazlewood, and that the year that is coming, if it shall be as successful as the year that is just closing, will be a matter of congratulation and satisfaction to every member of the American Bankers Association. I pledge to Mr. Lonsdale my cooperation, and will in every way endeavor to help him carry on this great work."

Mr. Haas, upon assuming office as Second Vice-President, said:

"I tried several times to write a speech for this occasion, but I could not finds words or language adequate to express my appreciation for the confidence which you had in me to adequately represent you on the official staff of the American Bankers Association. I want to thank you not only on my own behalf, but also on behalf of the bankers of my state."

Grant McPherrin,

President, Central State Bank, Des Moines, Iowa. Incoming Treasurer, American Bankers Association

Tribute To Retiring Chief

THE gift of the Association to the retiring President was a silver service. The presentation was made by John H. Puelicher in the following terms:

"Another Association year comes to a close and another President joins the honorable Association of Ex's. While its members will receive him with open arms, he, no doubt, will surrender with regret the gavel which may have been taken up with a degree of trepidation.

"There is a charm in the opportunity of service. There is glory in achievement. Nevertheless, custom has decreed that of the bank officers of the United States but one hundred may be elected to the Presidency of the American Bankers' Association in one hundred years, and hard as it may be to relinquish the gavel, and desirous as it may seem because of experience gained to continue those in office who have efficiently served, the rotation which precedence has prescribed has proved wise.

"While the duties of the President of the A. B. A. are many and varied, it has been the practice of most presidents to select one outstanding problem—usually that demanded by the time of service—and endeavor through its solution best to serve their profession.

"Former President Hazlewood came into the great office which he has just surrendered through the doorway of the State Bank Division. His contributions as President of that Division brought him recognition from the Association as a whole. It was, therefore, quite natural that he should turn to the solution of the problems which the affairs of

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JOHN G. LONSDALE

Elected President of the American Bankers Association, at its Annual Convention in San Francisco

Mr. Lonsdale is President of the Mercantile-Commerce Bank and Trust Company of St. Louis

An Evaluation of American Banking

By CRAIG B. HAZLEWOOD
Retiring President, American Bankers Association and Vice-President, First National Bank of Chicago

Free Initiative Built America. If Unit Has Its Faults It Also Has Virtues. Consolidations of Banking Presumably Represent Response of Banking Business to Economic Forces. One Per Cent of Banks Control Three-Fourths Commercial Deposits.

THIS is a highly important period in the banking business. We are witnessing some of the most outstanding developments, the most significant changes and the most constructive thinking in banking history. It may be well, therefore, to evaluate those factors in the banking progress in the last year which seem certain to project their influence far into the future.

We have had on the one hand a decade in which the percentage of banking failure has been beyond reason. During the past year the attack on this problem of bank failures through sound thinking and able bank management has reached a new crest, with results that justify the American faith in its business leadership.

On the other hand—stimulated in some cases by the need for better management and stronger foundations—we have had a startling increase in the trend toward bank holding companies, chain, group and branch banking.

In a Strategic Retreat

IT is not the desire nor the province of the retiring president of this Association to debate the merits or demerits of this trend in the banking system. I know that a number of bankers have been engaged recently in a strategic retreat from the ranks of unit bankers. I know that if the unit banking system has had its faults, it has also had its virtues.

During the past year there have been upwards of 1000 banking consolidations, all of which presumably represent the response of the banking business to economic forces that require a greater economy in operation, greater use of the limited number of thoroughly capable banking executives qualified to meet today's intricate and gigantic financial problems, and larger reservoirs of capital to undertake the greater financial burdens of this new business epoch —not to speak of the elimination of wasteful competition.

Ten banks today have combined resources of $10,000,000,000. One per cent of our banks control approximately three-fourths of the nation's commercial deposits, leaving one-fourth to the remaining 99 per cent.

Beyond Prophecy

"IF I were to isolate what I consider the master tendency in recent months in the banking business, I should say that it is the increased willingness of bankers everywhere to consider no tradition as fixed, no practice beyond reconsideration, no intelligent criticism unworthy to be heard. When you have such an attitude of humility and alertness—an attitude never so true as now in banking history—accelerated progress will be made in a degree almost beyond prophecy."—Craig B. Hazlewood.

Much in the Public Eye

A FREE initiative has built America. Every pioneer was for himself. United action has always been characteristically and democratically free. In the same spirit, American banking has developed, with each unit detached and independent—in sharp contrast to the many other countries where branch banking and a central government bank have always been a traditional and accepted trend.

I can, however, conceive a banking system which will discard any of the possible disadvantages of the banking system of yesterday, and eventually develop a perfected system which will provide every community with complete banking facilities, without taking from it that initiative which has contributed so large a part to the upbuilding of economic America.

Our banks and banking system are today very much in the public eye. Thousands of banks have become self-conscious about old-fashioned and slipshod operative and administrative procedure. The principles of scientific management and the lessons gained from widely gathered data have been translated into better bank management in practically every alert banking institution.

Bankers have learned to measure themselves by the needs and requirements of their customers as well as the expectations of their stockholders; not only have they become sales-minded and market-wise; but they have also taken to themselves those lessons of rapid turnover, economical operation and small profits, oft-repeated, upon which the prosperity of our chain stores, our factories, our utilities, our railroads, has recently towered so high.

Superior to Conditions

IT has been the particular aim of this administration of the American Bankers Association to promote in every possible way the important development toward better management, especially in the interests of country banks. The new spirit in banking today is a spirit of discontent with lax management—of determination to bring bank management standards to the highest levels known in business. This spirit has found expression in various ways, but in none, I believe more important than in the Mississippi Valley Conference on Commercial Bank Management held in March of this year—the first meeting in banking history which had as its sole purpose the practical problems of better bank management.

The Clearinghouse Section of the Association has devoted a major part of its activities in the past twelve months to research and study relating to bank management, particularly for the smaller banks. The results of this research have been made available to all members of the Association, through their respective divisions, in the form of a series of booklets, the first three of which have already gone into use. These booklets deal in a more complete and specific way than ever before with loan administration policies, profit and loss operations

and secondary reserves and security buying. Other studies on equally important phases and functions will follow at regular intervals.

Bankers have found that management is superior to conditions and that in the long run, the difference between banks that are liquid and non-liquid, safe and unsafe, profitable and unprofitable, outstandingly successful or deplorably lacking, rests upon just one factor—intelligent management. We are becoming intolerant of inexpertness in bank administration. We are firmly resolved that bank management shall be put upon a scientific basis, with maximum service, increased efficiency and greater profits as the final test. No longer can we overlook the imperative necessity of bringing every bank into line with the demonstrated facts and statistics of sound management. President Hoover has said, "I was taught young the potency of truth, that it would prevail. The raw material of truth is facts. Statistics are not mental exercise; they are the first steps to right decisions, to enlightened action, to progress itself."

Accelerated Progress

IF I were to isolate what I consider the master tendency in recent months in the banking business, I should say that it is the increasing willingness of bankers everywhere to consider no tradition as fixed, no practice beyond reconsideration, no intelligent criticism unworthy to be heard. When you have such an attitude of humility and alertness—an attitude never so true as now in banking history—accelerated progress will be made in a degree almost beyond prophecy.

It is chiefly within the past year that the seemingly ever present credit problem has come to the front in a new and problematical way. This development emphasizes the necessity for more expertly trained bank officers, and for the gradual upbringing of more bankers of broad vision, sound economic background, and who demand the time to think out solutions for these new problems of major importance which I suspect we shall more and more encounter in our profession.

Credit is the medium through which the banking business renders most of its service. There has always been recognition among American bankers of the importance of providing sufficient credit for legitimate business purposes and of distributing this credit in just and even handed measure. We should bear in mind that we are the custodians of the credit of this country. The primary responsibility for the volume of bank credit that is used in this country is in our hands.

The Range of Action

THIS responsibility was ours before the establishment of the Federal Reserve System, and it is ours today. The sum of the credit that we have available is that of our deposits plus our capital funds, and less our cash reserves. The range of our action is, therefore, to be found within the following boundaries: a position of strong cash and secondary reserves and large investment holdings on one hand compared with meager cash reserves, no investments, no secondary reserves, and rediscounting for as much as we can obtain. This range may easily represent 50 per cent of our total available resources. Furthermore, we determine the character of loans we will make —whether all will be for commercial, or agricultural purposes, or part for carrying securities. There is no law in any state or in the nation, except as to cash reserves and excess loans, which prescribes our course, either with regard to the liquidity of our bank, the percentage of local loans we make, or the purpose for which the proceeds of our loans is to be used.

Let us see if we can think clearly as to the issues which are involved in the greatly increased demand for loans to carry securities. First of all, I believe we should recognize the fact that, whereas, we are interested in the prosperity and growth of our corporation customers, and whereas, we are glad to increase, by reason of their growth and prosperity, the volume of credit we extend to these corporation customers, yet we do not directly add $1 to their growth and prosperity when we loan $100 today on a share of their capital stock as compared with $50 that we may have loaned on the same share six months or a year before. In other words, the increased volume of credit as employed in carrying stocks at higher levels, does not add to the wealth of the corporation itself. The market value of the securities on the New York Exchange list alone, increased from $60,670,000,000 on January 1, 1925 to $124,230,000,000 on July 1, 1929, which is a heavy increase in quoted values after allowing for increases in the number of units listed. The total amount of the new securities issued in 1928 was approximately $10,000,000,000 and for the first eight months of 1929 was about $7,500,000,000. A large part of these securities will undoubtedly be found in our collateral vaults.

His Real Responsibility

THIS brings us to the second point. The banker's chief responsibility is not the price at which securities are bought and sold; primarily, it is not his business to question the judgment of those who regard stocks as worth ten times or thirty times earnings. His real responsibility, and one to which he must hold fast lest the credit fabric of the country be stretched to the breaking point, is to see that not too large a proportion of the available credit of the country shall be used for the purpose of carrying stocks. There is a limit, and a very definite one beyond which bank credit in this country must not be extended if we are to preserve our gold standard, and it is unthinkable that the United States should abandon the gold standard.

Each of us as a bank manager is responsible for the condition of his own institution. It is definitely known that many of our banks, and especially some institutions in our larger cities, have increased their loans on collateral securities to peaks never before attained. Some of them are over loaned—in some cases they are borrowers and in some cases, even if they are not borrowers, they have exhausted their secondary reserves.

I know of a considerable number of large city banks whose only recourse to meet a new and extraordinary demand or withdrawal of deposits, aside from calling customers' loans, would be borrowing at the Federal reserve bank. Banks in this position are not entirely happy with the situation and many of them in the last sixty days have been refusing to make additional loans to carry securities. I know of no banks that are refusing to make legitimate commercial loans to which customers may be entitled. With the enormous increase in new securities which have been issued at higher loaning values, the pressure on our banks this year for collateral loans has been exceptionally large when added to the regular commercial demand. The level of interest rates at 6 per cent and up, as compared with an average of perhaps 5 per cent, which ordinarily prevails in the late fall, is a clear indication of this condition. Business appears to have adjusted itself to a 6 per cent rate and is going along about as usual.

For Use in Emergencies

IT may be fairly said that many conservative bankers in this country are gravely alarmed over the mounting volume of credit that is being employed in the carrying of security loans, both by brokers and by individuals. If, then, commercial bankers admit to themselves their responsibility in the matter of the amount of credit which is passed out over their counters, ought they not take careful heed of the situation as it applies to the country as a whole, even though their own particular institutions may happen to be in very liquid shape, with ample reserve loaning power. Shall they not think and act together to the end that nothing shall prevent their combined ability to take care of industry, commerce and agriculture.

Someone may ask: What is the rôle of the Federal Reserve System in this connection?—Is it not their sole function to look after the credit condition of the country, and should we not give them full credit or blame for a good or bad condition of affairs? I believe not—I believe that we have been somewhat too inclined to "pass the buck" to them. Certainly they have a responsibility in this connection, but the Federal Reserve System, as I see it, furnishes a marginal element in the demand and supply for credit. It is a well-known law of economics that the marginal demand and supply usually determines the price of a commodity.

As I see it, the Federal reserve banks take care of the marginal demand for credit through their rediscount opera-

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National Banks Need Branches

By J. W. POLE
Comptroller of the Currency

Regional Branch Banking for National System Recommended by Comptroller. He Would Have Congress Form Commission to Fix Boundaries of Definite Branch Areas. Present Day Conditions Declared to Demand Such a Step to Preserve Country Banking.

I AM availing myself of an opportunity to lay before the banks of the country and the public, certain considerations which are of great importance to our system of banking. It is fortunate that this can be done at a time of business prosperity when the financial condition of the country is unquestionably sound.

Before I attempt to set forth any conclusions or suggest any remedies I wish to present a few salient facts and statistics which in the main tell their own story. In the course of the development of this country there have been evolved two types of banks; namely, the metropolitan bank which serves a city population and the larger business enterprises, and the country bank which serves the rural communities and the independent business houses in the smaller cities. The metropolitan banks, by virtue of their large capital, their access to a great diversity of banking business and their ability to secure the most highly trained personnel, are in a prosperous condition and reflect (as all banks should) the general strength of industry and commerce.

Earning Capacity Low

HOWEVER, about three-fourths of the banks in the United States are outside of the metropolitan centers and it is these banks which serve the majority of the population. They necessarily have a small investment of capital funds because there is not enough banking business in their localities to justify a larger capital. More than three-fourths of all national banks are capitalized at less than 200,000. The ratio is even less for the state banks. A study of bank earnings covering the last two or three years, which have been years of general business prosperity, shows that a large percentage of banks outside of the principal cities are operating with insufficient earnings. Taking 1927 as a typical year, 966 national banks operated at a loss, and an additional 2,000 earned less than 5 per cent. In other words about 38 per cent of all national banks earned for the year 1927 less than the yield of a high grade security. It is well known that the earning capacity of the general run of country national banks is certainly not below that of the state banks similarly situated.

Current statistics for state banks are incomplete for the whole country, but figures are available for the calendar year 1926 which show that about 2,000 state banks operated at a loss. The average earnings of all banks, national and state, in one of our great agricultural states for the years 1924 to 1928, inclusive, were less than 1½ per cent on invested capital. In four other great middle western states comprising both agricultural and industrial activities 2,053 banks, national and state, earned in 1927 less than 6 per cent on invested capital.

Three Safeguards

IN order that branch banking within economic areas, as he suggests, may be orderly and sound the Comptroller would provide three safeguards. First, that governmental supervision be further extended and intensified. Second, that each parent bank be capitalized adequately to meet the responsibility of operating branches. Third, that discretion over the establishment and over the removal of every branch be vested in the Comptroller of the Currency.

A Serious Indictment

THE inability of many country banks to earn a fair profit upon invested capital is naturally reflected in the large number of failures which have occurred during the past eight years. From 1921 to 1928 inclusive about 5,000 banks closed their doors and tied up deposits of more than $1,500,000,000. Of this number, 700 were national banks and 4,300 were state banks. In four states from 40 to 53 per cent of all banks in existence in 1920 failed; from 20 to 40 per cent in six states; and from 10 to 20 per cent in ten other states. Only two small eastern states have had no bank failures within this period. Of these failures 80 per cent occurred in cities with a population of less than 3,000 and about 70 per cent of the failed banks were capitalized at $50,000 or less.

I have, upon a previous occasion, discussed the social and economic changes through which the rural communities have passed since the World War and I shall not go further into that question, than to say that the country bank faces vastly different conditions from those which confronted it in 1913.

I do not wish to be misunderstood as putting all country banks into the same category. There are many country banks that are sound and prosperous because they are in a position to obtain diversification of their business or are managed with unusual skill and conservatism. But surely the failure of between 5,000 and 6,000 country banks to which the savings of small depositors had been intrusted is a serious indictment against the system of banking in the rural communities of the United States. The burden of these failures has fallen upon those least able to bear it, and they have suffered both as depositors and as stockholders.

Many Causes Assigned

THE principal remedy which has been tried in the past for bank failures is the government guarantee of bank deposits. It may be definitely said that this remedy has failed wherever it has been adopted. There are those who have advocated stronger capitalization and more capable management for the country banks. This doctrine has been preached for years without avail, for the simple reason that the local business is not of sufficient volume to justify the larger capital or the employment of a more highly trained management. Many causes have been assigned for bank failures in the country districts but one primary and fundamental cause covers all of the others; namely, that diversification of business is not generally possible. Without diversification, there can be no assurance of success in the long run.

The condition which I have pointed out above is a present condition for the figures which are available for the year 1929 show that fifty-two national banks and 403 state banks have failed within

the last eight months. If these facts as to earnings and as to bank failures had been presented at the close of eight years of business stagnation and financial depression there might be no cause for concern. But the contrary is the case.

The last eight years have witnessed the greatest business activity, commercial expansion and financial strength the country has ever seen. Does not, therefore, the failure of so many country banks to share proportionately in this increased prosperity clearly indicate that there is a fundamental weakness in our banking system? Is it fair or just, or reasonable to subject so many of our people to the hazards of continued bank failures? Where is the responsibility for this condition? It is not primarily upon the bankers. The responsibility of the banker is to operate his bank safely and profitably within the limits prescribed by law but the responsibility for the system of banking under which he operates is upon the Government of the United States in the case of national banks and upon the state governments in the case of state banks.

Branch Banking

IN all of the current discussions of the country bank situation, branch banking is involved in one way or another. Branch banking has existed in the United States in some form since the earliest times both under the authority of Acts of Congress and of state laws. Under the Federal Reserve Act and under the McFadden Bank Act of 1927, national banks may establish branches in all foreign countries; in the insular possessions of the United States; and within the corporate limits of all large cities in which the head office of the bank is situated where the state law permits state banks to have branches. In the case of the establishment of foreign branches, a natioanl bank must have the approval of the Federal Reserve Board and in the case of a domestic branch, the approval of the Comptroller of the Currency. A number of states permit state banks to establish statewide branches but the establishment of any such branches debars them from membership in the Federal Reserve System. This restriction, however, has not been sufficient to restrain all state banks from establishing statewide branches under the authority of state laws.

When the McFadden Act was under consideration, the extreme opponents of branch banking predicted that if national banks were permitted to establish branches even within the cities in which they were situated there would be a great scramble for branches with a consequent confusion in the banking business accompanied by the danger of over-expansion. Such has not been the case.

At the time the McFadden Act went into effect; namely, February 25, 1927, 145 national banks were operating a total of 390 branches. On June 30, 1929, about two and one-half years later, 164 national banks were operating 992 branches, an increase of only nineteen banks and 603 branches. When it is considered that between 7,500 and 8,000 national banks were in operation during this period, the establishment of 603 branches throughout the whole of the United States must be considered as only nominal. In fact the rate of increase was about the same as that prior to the McFadden Act when a national bank could only acquire branches by purchasing a state bank with branches. At the time of the approval of the McFadden Act the total number of branches of all banks in the United States was 2,900 and on June 30, 1929, this number had been increased to 3,440. As the national law stands today the metropolitan banks cannot extend their services to the rural communities by establishing branches.

Group Banking

NOTWITHSTANDING the technical restrictions in the law against the establishment of branches in the country districts by banks in the cities, there has developed since the McFadden Act a new form of branch banking which appears to be without legal objection. For many years single individuals or groups of individuals have owned the majority of the stock of more than one bank. These banks were usually small and operated within a limited geographical area. This phenomenon was regarded as being without particular economic significance.

The term group banking has come to be used to embrace a new type of bank ownership. A central financial corporation acquires the controlling interest in the stock of a number of banks, one of which is a metropolitan bank around which the others are grouped. Although technically each bank in the group is a separate corporation operating with a local board of directors, practically each member of the group depends upon a central management which controls the banking policy of the group. The financial responsibility of the central ownership and management is the main support of the group.

This movement is so new and is developing with such apparent rapidity that it is not possible to present complete statistical information about it. Strong financial groups for this purpose have been formed in practically every great commercial center of the country. Some of these have already progressed to the point where they own from twenty-five to fifty banks. It is reported that there are 230 groups in existence in the United States including groups owned by individuals, and that they own about 2,000 banks. These figures are believed to be approximately correct.

Considering group banking as a phase or form of branch banking and counting each branch as a banking office, there are about 29,000 banking offices in the country as a whole, 6,000 of which are not strictly speaking unit banks. In other words, something over 20 per cent of all banking offices in the United States may be classed as branch banks.

Banking groups in the large cities which are thus obtaining control over country banks appear to be driven by economic necessity to using this method of extending the services of the metropolitan banks to the rural communities. They no doubt realize that the method used is more cumbersome and more expensive than branch banking in its proper sense. With the best of intentions, the most capable management and the highest financial responsibility on the part of a central group—and many of these groups meet these high qualifications—the group can never be operated with the economy, the flexibility and the singleness of policy which is possible under a branch system. If the laws permitted the establishment of branches in the country districts by these banks, group banking would disappear and the country districts would be able to do business directly with strong city banks.

While it is undoubtedly true that a strong metropolitan bank may, through the group system, greatly improve the rural banking situation by putting behind a group of country banks its financial strength and skill of management, it is debatable whether or not this form of banking is the best remedy for the situation which confronts us. The central management of a group must operate through a number of separate corporations, each of which must maintain its own operating status under the banking laws with a full complement of banking overhead. Diversification of banking business in the group and the use of liquid funds can only be obtained by transferring assets from a bank in one locality to that in another, at the same time maintaining the separate financial condition of each bank at the required standard. In the case of a group composed of both national and state banks this procedure complicates the work of the supervising authorities. While the condition of each bank may be determined, the condition of the group as a whole does not come under the visitorial powers of the government concerned.

In the absence of government permission for branch banking in its true sense present developments indicate that group banking, under the force of economic law, may eventually displace the present system of country unit banks.

Branch Privileges Sought

I HAVE given long and careful study to this question and have conferred with representative bankers of all classes. I have caused to be gathered comprehensive statistics on bank operations throughout the country. After reviewing all of the discussions concerning branch banking before and since the McFadden Act and having in mind that this should not be regarded as a controversy solely between bankers but that the interest of the general public also be given full consideration, I have reached the conclusion that an extension of branch banking privileges should be granted to national banks.

That it should not be nation-wide will be generally admitted. It has been suggested that branch banking be limited to the confines of each Federal Reserve

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The Great Web of Chain Banking

By R. S. HECHT
President, Hibernia Bank and Trust Company, New Orleans

More Than Seven Per Cent of Banks and About Seventeen Per Cent of Banking Resources of the United States Are Now Included in the Spread of Chain Banking Which Covers Entire Country, According to Special Survey Made by the Economic Policy Commission.

ECONOMIC research and the dissemination of economic truths are the main objects of the Economic Policy Commission. With that end in view the Commission has during the past year made an exhaustive investigation of the development of chain and group banking throughout the United States.

In this investigation the Commission entered an unexplored region. There were no landmarks to go by. There was no established body of reliable facts to build on. There was a confusion of rumors and a chaos of misinformation. Furthermore, new bank groupings and chain bank systems are springing into existence or into notice so rapidly that often today's data are rendered obsolete by tomorrow's events. Therefore the story put forward in this report is not conclusive, nor is it assumed that the figures embodied in it are all-complete.

Seismic Revolution

NEVERTHELESS, the figures do represent a comprehensive survey of this seismic revolution that is going on in American banking as the land lies today. In the collection of these facts we have maintained a thoroughly impartial and dispassionate attitude and they are presented without opinions or deductions, simply as an unprejudiced economic study of conditions as they exist in the banking world today.

The facts comprised in the information which we have compiled envisage chain and group banking systems in the broadest sense of the term.

They include those groups in which the dominant element is a particular bank exercising direct or indirect, but definite, control over a number of other banks. Of this class of chain systems we find 77 instances, involving 402 banks, including the head banks, and representing $6,104,000,000 in combined banking resources.

Involves 311 Banks

THEY include also those groups in which a non-banking holding company, not subsidiary to any particular bank is the dominant element. Of this class of chain systems we find twenty-eight instances, involving 311 banks and $4,929,000,000 in combined banking resources.

Finally, they include those groupings in which the dominant control is exercised by individual persons or groups of individuals acting for themselves. We find 167 instances of this class, involving 1071 banks and representing about $1,468,000,000.

These three classes represent a total of 272 chains, involving 1784 banks and about $12,500,000,000 in aggregate resources. If there are now approximately 25,000 banks in the country with resources of $72,000,000,000, these figures indicate that over 7 per cent of our banks and over 17 per cent of our banking resources are enmeshed in the great web of chain banking that now covers almost every part of the country. Some of these chain systems comprise 50 to 100 banks each.

Chain Banks in the United States

State	Number of Chains	Number of Banks	Resources
Alabama	5	26	$20,000,000
Arizona	1	6	21,560,000
Arkansas	4	82	101,820,000
California	12	58	1,350,530,000
Colorado	2	14	104,870,000
Connecticut	..	..	....
Delaware	..	..	....
Florida	4	20	106,520,000
Georgia	6	24	221,180,000
Idaho	3	23	30,890,000
Illinois	11	86	1,050,860,000
Indiana	2	10	38,970,000
Iowa	12	90	85,150,000
Kansas	10	55	41,070,000
Kentucky	2	9	57,180,000
Louisiana	1	6	18,850,000
Maine	1	5	69,220,000
Maryland	..	..	....
Massachusetts	4	34	684,260.000
Michigan	14	96	786,310,000
Minnesota	34	389	808,350,000
Mississippi	1	5	6,920,000
Missouri	3	29	201,200,000
Montana	1	8	5,940,000
Nebraska	9	63	31,970,000
Nevada	2	14	26,000,000
New Hampshire	..	..	....
New Jersey	14	53	371,500,000
New Mexico	4	13	18,600,000
New York	17	94	3,987,790,000
North Carolina	..	..	....
North Dakota	8	62	27,150,000
Ohio	..	..	....
Oklahoma	8	58	169,940,000
Oregon	6	32	94,050,000
Pennsylvania	15	52	890,300,000
Rhode Island	1	3	173,650,000
South Carolina	2	7	65,490,000
South Dakota	4	23	13,680,000
Tennessee	5	14	115,970,000
Texas	13	51	136,110,000
Utah	5	50	92,380.000
Vermont	..	..	....
Virginia	..	..	....
Washington	18	77	203,630,000
West Virginia	..	..	....
Wisconsin	6	33	256,640,000
Wyoming	2	10	14,050,000
Totals	272	1,784	$12,500,550,000

Listed by States

OF one class or another these chains are revealed by our figures in all but nine of the forty-eight states, and as to these nine our information is chiefly negative, and we cannot say positively whether there is chain banking going on there or not.

The accompanying table shows the state-by-state distribution of all classes of chain bank and group organizations.

This table lists the chain systems acording to the states in which their head offices or controlling elements are domiciled, although many of them comprise banks in more than one state.

A survey of the material showing the structure of chain bank organizations reveals that under each of the three main classes as listed there are a number of distinct types. Our data covers, so far as possible, all the foregoing classes and types of chain and group banking systems.

We have not included, however, that large body of banking groups in which a commercial bank, a trust company and an investment house, and some-

times a savings bank are tied together by some form of stock holdings and frequently operated under one roof or under adjoining or nearby roofs as complementary elements in an organization rendering complete financial services.

So long as they go no further than that we have held that the intent and theory of such groups are similar to those of a departmentalized bank structure and distinctly different from the purposes and operations of a chain or group banking system.

We would note in passing, however, that we have discerned a distinct tendency on the part of such banking groups to use their holding companies or investment units to extend their operations along unmistakable chain bank lines.

For purposes of the present report, therefore, we would define chain or group banks as those systems in which a centralized administrative control, whether corporate or personal and either rigid or informal, directs the operations of two or more complete banking units, each working on its own capital and under its own personnel and located in one or more cities or states. There are many border line cases, but we have found generally that the distinction of purpose and operation as between independent unit and multiple unit banking can be drawn along the lines of this definition.

Effect of Laws

IT has been assumed by some that the rapid development of chain and group banking was in the nature of a reaction against restrictions imposed upon multiple office banking of the branch banking form by anti-branch banking laws. Our observations do not wholly confirm this theory, since we find chain banking prevalent in states where virtually no restriction is imposed on branch banking, as well as in states where branch banking is prohibited. However, the facts do show that anti-branch banking laws have been a factor in some cases, and probably in some sections, in the spread of chain banking.

The greatest number of chains are found in the states of California, which has eleven; Michigan, fourteen; New Jersey, fourteen; New York, seventeen; and Pennsylvania, fifteen; in Illinois, eleven; Iowa, twelve; Minnesota, thirty-four; Texas, thirteen, and Washington, eighteen, and in Kansas, ten. In the first five of these states the establishment of branch banks is permitted; in the second five it is prohibited; while in Kansas there is no provision in the law regarding it.

The greatest volume of banking resources involved in chain banking are found in California, which permits the establishment of branches on statewide lines; in Massachusetts, Michigan, New Jersey, New York and Pennsylvania, which permit the establishment of home-community branches, and in Georgia, Illinois, Minnesota, Missouri, Washington and Wisconsin, where the establishment of branch banks is prohibited.

Mixed Factors

AT least one case has come to our attention where expansion along chain bank lines has been carried out by a state bank whose expansion along branch bank lines was stopped by a law passed in the state in 1921 prohibiting further branches. Whether in those states in the Northwest where chain banking developments have been especially active, notably Minnesota and other states in the ninth Federal Reserve District, expansion would have been along branch bank lines if the laws had imposed no barriers, it is impossible to say. There is obviously a well-developed banking opinion in that territory that the chain bank method brings to outlying banks the strength and efficiency of a big organization without depriving them of their local individuality and sympathies. It may therefore have been that a large part of the expansion comprised in the chain bank movement would have been along these lines even if the laws had permitted branch banking extensions.

In view of the mixed factors noted, we feel it is unsafe to generalize as to what bearing branch banking laws have on chain bank developments. The recent era of rapid chain bank developments has found specific reflection in state legislative action tending to restrict or control chain banking.

Generally speaking, but not universally, banking laws make it impossible for banks to build corporate chains directly. National banks are not permitted to invest in the stocks of other corporations, and this is also the law in a great many states as to state banks, although trust companies ordinarily are allowed to make such investments. Therefore, broadly speaking, existing laws have resulted extensively in chain bank organizations being controlled either by a holding company created specifically for the purpose and owned pro rata by the bank's stockholders or by a trust for the benefit of the stockholders or a given bank or group of banks. Closeness of tie, however, between the dominant banks and a chain system is not seriously impaired by those legal devices, which after all amount merely to a paper partition in the organization controlling the bank chain, with physical arrangements, management and operating personnel virtually a unit.

Specific Enactments

THERE have been a number of interesting specific enactments on the subject of chain banking in the past year or two. In New Jersey in 1928 a law was passed prohibiting the operation of bank holding enterprises except where they are banking institutions or their affiliates.

In West Virginia the last session of the legislature enacted a new banking code in which chain banking is specifically prohibited. It prohibits any firm, association or corporation to hold stocks in banking institutions for the purpose of perfecting control of one or more, directly or indirectly.

In Wisconsin a measure has just been signed by the Governor providing that no Wisconsin corporation can hold more than 10 per cent of the capital of any Wisconsin state bank or trust company without the consent of 75 per cent of the stock, both of the corporation and the banking institution; that no state bank or trust company may authorize a non-Wisconsin corporation to purchase its stock unless the corporation is authorized to do business there under the Wisconsin state statutes; that any state bank, trust company, or national bank doing business in Wisconsin controlled by a non-Wisconsin corporation unauthorized to do business in Wisconsin, shall be disqualified from acting as depository for any public funds in the state or reserve funds of state banks, and that any Wisconsin corporation, investment trust, or other organization, also any non-Wisconsin organization authorized to do business in the state, holding control of a state bank or trust company, shall be deemed to be engaged in the business of banking and fully subject to the supervision by the State Banking Department along lines similar to banks.

Finally, this measure provides that any company owning stock in a state bank or trust company shall be liable to assessment on the same basis as an individual stockholder, that it must deposit with the State Treasurer legal securities in the amount of 50 per cent of the par value of its bank or trust company share holdings, and that in the event the double liability of any corporation on its bank stock holdings shall not be paid under an assessment, the stockholders of the corporation shall be held liable for the deficit.

Some Criticism

IN Massachusetts, where the branch bank policy is similar to that covering national banks and permits the establishment of branches in the home city or county of the parent bank, some criticism has recently arisen of the operations by which certain banks have expanded their activities through organizing holding trusts to conduct chain bank groups. As a result of this opposition a measure was introduced at the last session of the Legislature providing for the creation of a commission to investigate "the ownership or control of the capital stock of trust companies with a view to ascertaining to what extent such capital stock is owned or controlled directly or indirectly by any other trust company, bank or banking association, or by any corporation, association or trust, directly or indirectly owned, controlled or affiliated with such other trust company, bank, or bank association." This measure, however, failed of passage.

We find a sharp difference of opinion among bank commissioners who have expressed sentiments regarding chain banking, in reply to our questionnaires.

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Banking Evolution in America

By GEORGE W. DAVISON
President, Central Hanover Bank and Trust Company, New York

Growth of Correspondent Bank Relations Called Safeguard of Individualism in American Banking and is Considered Normal Economic Development. Excessive Concentration of Power Seen as Contrary to Traditions of the Country and Its Statutes.

WHAT is happening to our American banking system in this era of accelerated speed, innovation and change? When the dust of the era has cleared away will our American banking system be radically different from the banking system with which America faced the new conditions at the end of the Great War a little more than a decade ago?

What is denoted by the rapid progress of the merger movement for larger and larger banking institutions? By the persistent movement for the expansion of branch banking beyond municipal confines? By the movement for what is called chain banking, obviously an endeavor to establish a compromise with national and state statutory limitations on branch banking? Are all these movements to go on with gathering force and widening sweep until we have a few hundred or even a few score mammoth banking institutions with myriads of branches? Or are we going to preserve our banking system essentially unchanged in form, organization and control?

Must Cause Concern

THESE are only some of the questions which those, who are engaged in what is not too accurately called the banking business, are all asking themselves and one another. The very questions give concern. The implications of an answer in favor of an intense concentration of control in the banking field must cause still more concern because of the basic characteristics of American banking in its historic past and because of the contribution of banking to the exploitation of American economic resources and the prosperous growth of American enterprise.

The general reasons for discussing the subject are the common interest all bankers have in whatever adaptations they should make to fit their activities to the needs of the time and the future. The particular reason for approaching this subject is the special interest I have in the work and problems of a great many separate banks. The bank and trust company which I have the honor to direct is the depository and correspondent of a larger number of banks. Their interests are our interests. We are the possessors of a pioneer tradition in the establishment of correspondent bank relations, and all the thinking I have been able to do on questions affecting our banking future has centered around some of the most valid conclusions which are to be drawn from the contacts and experiences of a correspondent bank with its depositing banks. When we recall, and recall we can with pride, the encouragement and assistance which the freedom of independent initiative in our highly individualized banking system has given to the constructive achievements of American history and trade and the enhancement of the popular welfare, I am satisfied that all these questions can receive an answer affirming that there is no necessity in our banking past or present for a revolutionary change in our banking system in the near or further future.

Invisible Ties

"SO far as concerns the solidarity of the banking community, the historical relationships of correspondent banks are cemented by strong, invisible ties of loyalties and business friendships arising out of years of fair and honorable dealing and mutual confidence. What ties of branch banking can be as strong as these? What can we do to make stronger the ties which bind together men proud of their independence, their individual integrity and their freedom of action."

Awkward Questions

SO that I shall not be misunderstood, I wish to make it clear that I believe in bank mergers, up to the point where they are not restrictive of interbank competition and up to the point where independence can be retained and its relations with its customers do not become mechanical or stereotyped. I believe in branch banking in limited local areas where the closest kind of contact can be kept with the main office and, of much greater importance, where the main office has a close and exact knowledge of local business conditions and the local people.

Regarding it solely as an experimental form of branch banking I shall not argue here against the endeavor to weld banks into chains moored to holding companies which are in turn subsidiary to or allied with institutional banks. One of our great advantages as Americans has been the opportunity offered by our vast geographical extent, by the different qualities of our population and the different resources of our far-flung land to engage in experiments, political, social and economic. In our laboratories of such experimentation, we have made helpful discoveries.

One of the discoveries which we have been continually making is that what was often supposed to be new has not necessarily been new, and far more often, what was thought to be desirable because it was new has turned out not to be good. It might be asked, in passing, if you go in for buying banks in order to make a chain or to set up branches, or if you go in for mergers for the sake of size, where are you going to stop? These are awkward questions to answer, but at long last I do not argue against experiments in branch banking expansion because I believe that we have something else which is better; which argues for itself.

Every Lesson Learned

WHAT is there about American banking which would indicate that it is in the way of a great change in organization, form and control? Is there anything fundamentally wrong in the present organization, form and control? I think not. I believe that today America has the best banking system in the world; the most flexible; better adapted than the banking system of any other country to the enhancement of the economic welfare of all its people. What other country can show anything like our highly developed check system for facilitating the exchanges of its domestic trade? What a tribute to our banking system is our check system which gives such currency to confidence.

Undoubtedly this was not always so. It was not so prior to fifteen years ago when the Federal Reserve System was set up. Nevertheless, our banking in our whole history has matched the requirements of American opportunity and contributed invaluably to its realization. Every lesson that experience set for our banks was learned and the teaching was put into effect; whether the lessons taught by the destruction of the first and second banks of the United States; the lessons of the periods of free banking and wild-cat bank note issues; the lessons of the battles for sound money; the long lesson of our panics which finally enabled our banks to convince themselves and so convince the people that our banking system must have some centralized direction, some centralized ability to render solvency liquid, and give fluidity to credit, some coordinating factor of banking power through mobilized reserves; or the further lessons learned in the recent war years as the result of which our bankers, instead of being chiefly brokers in loans have become dealers in credit for the nation and the world.

One Universal Fact

THROUGH all the decades and generations of banking mistake and banking failure, the periods of disordered currency, the cycles of boom, panic and depression, American banking has persistently gone forward, and taught by experience has suited itself to the demands of each new day. What is there about the record which is to account for this, and why is it that America has, as I believe firmly it has, the best banking system at present for its needs?

The answer is to be found in the one universal fact which stands out in our banking history; that our banking has been done by individual banks, locally owned and headed by responsible individuals who were free to make their own decisions and accomplish their own successes, who were intimately associated with the activities of their local communities, thoroughly acquainted with local conditions and local people and, because the ramifications and contacts of banking are endless, more or less in touch with industrial, trade and financial conditions elsewhere.

I believe that it has been vital to the interests of America that our bankers have had the individual freedom of initiative and competitive action which they have enjoyed (subject to such statutory restrictions and governmental supervision as the popular will has demanded and time has shown to be wise and desirable) and I believe that it is going to be equally vital to the interests of America in the future that the largest possible amount of individual freedom of initiative and competitive action should be retained by our bankers.

The prime characteristic of American banking has been its intense individualism. This used to be true also of American enterprise in trade and industry where it is becoming less true. Reasoning by analogy is always dangerous and never more so than in the attempts to draw analogies between the economic movement toward concentration in manufacturing and merchandising and a movement toward a similar concentration in banking. The character of the service is fundamentally and essentially different.

I have stated that it was inaccurate to speak of the banking business. We know how unlike banking is to the business to which it ministers. The vocations of the banker are far more akin to the vocations of the professions than they are akin to the activities of business. In the case of banking institutions directly or indirectly engaged in merchandising securities there is a resemblance between banking and business, but in my view, the merchandising of securities is not an essential of deposit banking. True, the banker deals in money, but very little in real money which is a commodity, and very much in promises and orders to pay money which are not commodities.

Real banking is dealing in credit, and credit can hardly be regarded as a commodity. The banker is all the time engaged in exchanging his better known credit for the lesser known credit of his customers; or if you like, engaged in giving a circulating quality and a buying and debt-paying power to the credit of his customers on his judgment of their character and resources. Basically, banking is engaged with character, and in this engagement a bank renders service to its many customers. Its earnings are more of the nature of the fees received by a physician or a lawyer than they are of the nature of the money price obtained by a manufacturer or merchant for the goods which he sells. I might add further that the difference between banking and business is indicated strikingly by the fact that the competition between banks is in quality of service, that there is seldom a question of price; that there is no real problem of cheaper banking for us to solve.

A Trifling Price

IT has often been said that the great fault with American banking has been that there were too many banks. The criticism is important and has its veracity. It is quite likely that during the last generation particularly there may have been a too liberal chartering of national and state banking institutions. With some 24,000 state and national banks and trust companies, we have, it seems to me, a sufficient assurance of banking competition.

Because we have had so many separate banks, competition between them has too often conduced to excesses of departure from sound banking principle and wise banking policy. It has also conduced to an excessive amount of uncompensated service by banks generally in the effort to gain or retain deposits. Because of the very multiplication of banks there has been on occasion an undue amount of bank failures.

It is for these reasons among others that I believe in bank mergers—up to a point, as I have already stated, and in localized branch banking. Nevertheless, I think that all which our multiplicity of individual banks has cost the banking community and the American people, has been a trifling price to pay for the values inherent in and the benefits derived from our individualistic banking and from the maintenance of banking freedom of initiative and competitive action.

In no phase of our American life has our individualistic tradition maintained so thoroughly the free play of competition as among our banks. It is that which is primarily responsible for the adaptability shown by the American bank and the American banker to all the changing needs of new conditions and the promise of new opportunity.

Must Justify Itself

ONE thing we must grant, that as in other economic fields all institutions, organizations, methods, practices and controls must justify themselves by persistent progress to the best results, so must our banking systems justify itself. This is only another way of saying that while we believe we have now the best banking system in the world for our needs we have not attained perfection and never shall; that we must work for still better banking. That the way to better banking lies along the road of a banking system intensively concentrated to the last degree I am not prepared to admit; indeed I am disposed to deny that better banking and huge banking consolidations which tend to reduce materially the individualism of American banking are at all synonymous.

Good banking is good banking, whether in the large or in the small, and it is my firm conviction that the best possible banking can be done just as well by the banks in the sparsely settled agricultural regions as by the larger banks of the towns and the much larger banks in the cities. I believe that it is only possible for better banking to be done by banks which are individually free to improve their services as their situation permits; banks which have independent freedom of individual initiative basing their action on their own knowledge of local conditions and their own judgment of local character and credit worth and are at liberty to make their own choice of cooperative affiliations.

Unlike Europe

IT is my conviction that a study of our banking history and of our banking system as it is today reveals the lines along which our banking individualism can be preserved. Have we need of importing the organization and practices of other lands, even if they are lands of a much older banking history than ours? I doubt it.

We have learned a great deal from abroad and shall continue to learn more from countries and peoples with older experience. Yet what we appropriate from abroad we are most apt to apply

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The Science of Bank Management

By H. N. STRONCK

Very Rapid Development of Scientific Management in Banking Field Forecast. Problems of Small Banks Recognized. Outline of Basic Policies for Operative Administration, Local Loans and Financial Program. Entire Change of Viewpoint Demanded.

Work to Be Done

SOME major functions in bank administration are indicated here in which considerable work must still be done in order to develop sound policies and methods—the foundations of success in an era when facts are being substituted for opinions. The subject is discussed from the viewpoint that the problem of developing better bank management is one far beyond purely local interest and is one of nation-wide importance.

IF, prior to the year 1900, one had attempted to discuss the internal problems of bank managment, I doubt whether much interest would have been aroused among bankers for the problem then, although it existed in some form, would not have been recognized as of national importance. In 1900 there existed but 10,000 banking units with aggregate resources of about $11,000,000,000.

The era of rapid bank expansion, both in number of institutions and aggregate resources, followed the year 1900. This expansion reached its peak in 1921 in the number of banking institutions, for at that time there were in existence 30,812 institutions with total resources of about $50,000,000,000. As indicated by subsequent events, some recognition was given to the problem of internal bank management during this period of unwise expansion, for many a bank, although located in a "trouble area" came through with flying colors, but that the problem was not recognized as one of national importance, one worthy of the consideration of all those interested in the welfare of banking, is also shown by these subsequent events.

"This Sad Experience"

WHAT is now generally referred to as the "era of bank failures" commenced with the year 1921, during which year 502 banks were suspended. I trust that years from now it can truly be said that this movement reached its peak during 1926 with 956 suspensions, and that never again will we face such a record. During the eight year period 1921-1928, 5,004 banks were suspended, which equalled 16.6 per cent of the total number of banks in existence in 1920.

It is undoubtedly true that many of the underlying causes for this era of bank failures developed prior to this period, but they were not nationally recognized, for no preventive measures of an effective nature were developed and applied. It was not until "after the horse was stolen" that enough interest was aroused among all groups interested in the welfare of banking to attempt to place a "lock on the door."

This sad experience, together with a knowledge that there are still in existence a great many banking institutions that are either subnormal in their financial or net profits positions, did more than anything which happened during all of the prior years of American banking under the form of national and state banking systems, to make bankers, and others interested in the welfare of banking, admit that there was such a thing as the "problem of bank management."

In the Right Direction

PROGRESS, in the solution of a problem, can only commence when the problem itself is recognized, and now that the problem is recognized, I look forward to a very rapid development in the application of what might be termed scientific management to the banking field.

Particularly during the past two years, have I been impressed with the change in the methods of thought of individual bankers in connection with their problems of internal bank management. Because thinking is the basis of everything, that we are, or do, or say, development of the right type of thinking must precede effective solutions of problems. That a move in the right direction is being made is evidenced by the great enthusiasm aroused in the conferences on "better bank management" held under the auspices of the American Bankers Association and several state bankers associations, and the tremendous interest in educational literature dealing with the problem, especially the pamphlets distributed by the Clearinghouse Section of the American Bankers Association.

Although the number of banking institutions is declining, new problems of bank administration are developing daily, due to the rapid change in forms of banking. The problem of the small bank is recognized and some solutions are being developed for such cases. Simultaneously with this development of the problem of the small bank, we have entered into an unprecedented era of bank mergers. Not only have many of our banks grown rapidly in size, but many new functions have been added to the work of banking institutions.

Also, a rapid expansion is taking place in the form of group, or chain, banking with a possibility of a greater momentum in branch banking. So rapid is this evolution, that those who are keeping abreast with the movement may properly be concerned as to the ability of their organizations to meet the many special problems created by the modernized situation.

The Majority May Be Wrong

EXPERIENCE has shown that one of the great handicaps under which many banking units have been laboring is that the banking policies and practices which they adopted have been in conformity with established general practices in their territory. Just because quite a number of banks adopt a certain practice does not necessarily mean that such a practice is correct.

Majority opinion may be wrong. As for example: many country banks had adopted the practice of over-extension of local loans in aggregate and over-concentration of type of loan; adopted practices which inevitably resulted in large proportions of capital financing and non-liquid loan lines. As witnessed by the era of bank failures among country banks and the non-liquid position of many still surviving ones, such policies are now admittedly unsound.

Up to quite recently, practically all banks were loaded with unprofitable services of one kind or another. As evidenced by the rapid extension of stop loss charges, such policies of "free ser-

vices" are now admitted to be unsound.

It is an admitted fact that in order for any enterprise to be successful it must be founded upon sound policies. Many banking policies are yet formulated based upon opinions rather than upon facts.

Facts for Opinions

WE have no right morally to decide as a matter of opinion that which can be determined as a matter of fact. The substitution of facts for opinions is the basis of all modern administrative and management progress, and the rate of this progress is controlled by the extent to which the methods of scientific investigation supplant the debating society methods in determining a basis for action.

A man basing his action on facts is in a far more secure position than he who has only opinion for his guide. We must recognize the inexorable law of the survival of the fittest, and that it applies to institutions as well as to individuals, plants and animals.

We must bear in mind that sound practices can be developed only from sound principles, and sound principles can only be formulated through intensive research and analysis. Practically all great inventions are the outcome of, or based upon, so-called theoretical research in the fields of mathematics, physics, chemistry, biology, and mechanics.

Banking Loses An Alibi

IN the banking field there has been too much practice and too little scientific research. As a result, too many unsound practices have developed. The truly great executive is one who is well versed in the fundamental principles upon which to base his practices. If practices are based entirely upon the experience of but one individual, or of a small group, a danger exists in that a number of such practices may be unsound, and their application may result in disaster as time goes on. This is the handicap under which the so-called purely "practical" individual operates.

Who is to formulate sound policies? Within a banking unit, administration is the policy formulation function. The administrative bodies in a bank are the board of directors and their appointed committees. Experience has shown that in far too many a bank these administrative bodies either lack the ability or the facilities to formulate sound policies. It is now also a recognized fact that the problem of developing better bank management is one far beyond purely local interest; it is one of nation-wide importance. It is, therefore, of interest to note that the American Bankers Association has recognized this as a problem national in scope, and through its Clearinghouse Section is creating a mechanism with which to develop sound policies and practices, and, what is even more important, is placing these at the disposal of all banks. As this movement increases in scope, the individual bank can no longer use as an alibi for failure that its management did not have at its disposal safe guides for the conduct of the institution.

At this point I will attempt to indicate some major functions in bank administration, in which considerable work must still be done in order to develop sound policies and methods. I will endeavor to avoid a duplication of such material as has already been made available to the banking fraternity through publications of the Clearinghouse Section. Anything which has been presented to date, and what I am presenting, must as yet be considered as a pioneer attempt in an approach to a possible solution.

Functional Groups

SINCE the proper investment of deposit funds and the safeguarding of earning assets has been termed the "heart of banking," the importance of a sound financial program is self-evident. Yet it is in the field of development of sound financial programs that the least progress has as yet been made in banking. When we analyze the tremendous variation in the "make-up" of the assets of banks, we can readily comprehend the situation. Many bankers still admit that they do not have a definite financial program. From a standpoint of the banking process, what happens is a conversion of liability funds, as represented by deposits and invested capital, into earning and non-earning assets, such as cash, due from banks, loans and discounts, bonds and securities and fixed property.

A sound financial program gives due consideration to the proper diversification of these assets and a proper balance between the various kinds of assets—in other words, management of financial position for both "liquidity and profits." The financial program must, therefore, call for a consideration, first of all, of the proper proportion of the following main, functional groups of assets:

The primary reserve: Consisting of cash in vault, cash reserve, due from banks, exchanges, etc.

The secondary reserve: Consisting of commercial paper, bankers acceptances, call money, called bonds and highly marketable, short term bonds.

Local loans: Consisting of loans made to local individuals and enterprises, properly diversified as to the nature of the business of the borrower and the nature of the security.

The investment account: consisting of a list of high grade, marketable bonds, properly diversified as to types, size of unit and maturities.

The property account: Consisting of the fixed assets of banking quarters and equipment.

Since a great many variable factors affect the percentage proportion of each of the five foregoing groups, it is impossible to set a definite standard which would be applicable to all banks. However, certain basic laws have already been determined, and methods of analysis outlined, so specific programs can be developed to meet the underlying factors of any type of bank.

Local Loan Policies

SINCE, in the majority of commercial banks, the largest single group of assets consists of local loans, the importance of sound local loan policies is self-evident. I will, therefore, present a number of basic policies as to local loans which I believe are sound:

1. Diversify loans to avoid undue concentration of loans to borrowers of any one type, or security of any one type:

   There is no major formula as to how a banker should diversify. The particular needs of his community largely influence his decision, yet in no case should he allow one type of borrower to dominate his loan lines. The banker must be a keen observer of economic conditions of the business of all borrowers in which lines an appreciable percentage of loan funds are employed. Similarly, as to diversification of units of collateral; too much collateral of one enterprise, even though it may be scattered among a large number of loan lines, is hazardous.

2. Avoid concentration of loans to a single borrower, or to a few large borrowers:

   Over-concentration of loans to a single borrower or to a few large borrowers is an unwise policy. It creates a dangerous risk in case of business reverses and sets up a possibility of outside influence. A large borrower may be in a position to dictate bank policies. Do not develop a condition whereby customers may be in a position to "run your bank."

3. Base secured loans on adequate collateral of sound investment quality:

   A true collateral secured loan is one where not only is the collateral ample, but where the collateral itself is of such a marketable nature that at any moment the entire loan can be liquidated through the sale of the collateral. Therefore, if the collateral is not of this nature, then other credit risk factors must play an important role in the evaluation of this loan.

4. Require accurate and adequate financial and operating statements on all unsecured loans:

   It seems hardly necessary to mention the importance of adequate and accurate financial and operating statements on all loans of $500 and over not secured by marketable collateral. What a banker must attempt to do is to determine the capacity of the borrower to pay such a loan at maturity. This can only be done through the obtainment of facts.

5. Base granting and extension of all loans not secured by ample investment collateral upon liquidity of financial position and favorable managerial and economic factors:

   The "acid test" for the granting of such loans is the determination of the capacity of the borrower to pay that loan at maturity. The real value of a note is its collectibility. Borrowers tend to discount the future; they expect to pay the loan from results of transactions not yet consummated.

6. Do not engage in long term or capital financing, that is do not become a partner in a business:

   We must keep constantly in mind the true objective of commercial banking, as distinguished from long term or investment banking. The sole purpose of a true commercial loan is to finance current production or distribution, or current agricultural or live stock operations. A true commercial loan, therefore, is self-liquidating at the completion of the current business cycle of the business of the borrower. Loans to finance the purchase of land, erection of buildings, or the creation of other forms of permanent assets have no place in the commercial note case.

7. Schedule maturities to correspond with the production or distribution cycle of the business of the borrower.

   In every business there is a natural period, or cycle, starting with the expenditure to produce or store a commodity, buy live stock for feeding, or plant a crop and ending with the sale of the commodities thus produced or stored. This cycle may be long or short, dependent upon the nature of the business, but in every type of business a normal cycle exists. Since commercial loans are intended to finance inventories, accounts receivable, planting of crops, fattening of live stock, etc., the repayment of the loan should follow closely the realization on the operations of the borrower. This is the time when it can be paid most easily. When settlement is not made at that time the bank is very apt to drift into a continuous loan.

8. Avoid continuous loans—insist on complete or at least a substantial liquidation at maturity:

   Regardless of how continuous loans may arise, the bank should definitely set up a policy to avoid them. Even though a bank may possess an excess of loanable funds and even though the credit risk appears good, the bank owes it to itself and to the community to keep its note case in a

liquid position. It is true that circumstances frequently make this impractical in individual cases, but as a general practice it is feasible and works out both to the advantage of the borrower as well as the bank. It forces both to keep their affairs constantly in liquid shape.

9. Require adequate compensating balances on all loans not strictly of the investment type:

The chief source of the lending power of a bank is its deposits. Hence, credit risk being equal, the customers who have contributed most to the bank's deposits are those entitled most to credit accommodations. This is fundamental from a standpoint of customers' service as well as business. The so called "20 per cent rule" has been rather widely adopted by city banks on commercial loans, but its application is not as yet national in scope and besides there are still too many exceptions to the rule even in banks which have accepted the policy.

10. Scrutinize most carefully loans where social, personal or other than business factors enter.

Operative Management

BEFORE discussing policies of operative management, let us see with what operative management deals. Operative management must:

Procure "raw material" in the form of deposits, and procure same as cheaply as possible. This is then turned over to financial management and by them converted into income producing assets of a nature so as to produce the highest possible rate of income commensurate with safety and liquidity.

Handle and record all of the transactions involved in deposit banking and subsidiary operations, and perform this work at as small a cost per transaction as is possible.

See that this handling and recording is so accurate and rapid as to satisfy all deposit customers as to the service of the bank.

Check and verify as to accuracy of handling and recording and satisfy itself that the assets, as recorded, actually exist and that the liabilities, as recorded, are neither over nor understated.

We know that interest paid on deposits is the largest single group of current expenses in practically all commercial and savings banks. The difference between the interest paid for funds and the interest and discount received from the earning assets into which these funds are converted is the net income from interest. When financial management gives due consideration to liquidity of assets, it reaches a limit for what it can obtain for converted deposit funds; hence operative management must supply such funds as cheaply as possible in order that the net income from interest and discount may be maintained at a high level. Operative management must do more than this; it must develop other sources of income beyond that received from interest and discount. A realization of this condition has led to the development of income from such non-commercial banking operations as mortgage loan, bond, trust insurance departments, etc. Operative management in many banks has also realized that considerable expense is involved in conducting a deposit business beyond the interest paid for deposits, hence, on purely the deposit business it has sought additional sources of income.

Raising Havoc with Profits

THE custom of the payment of interest on demand deposits, which is becoming so prevalent in metropolitan banks and which, in some instances, is raising havoc with the profits on demand deposit banking, has not yet penetrated very deeply into country banks. Beyond interest paid on public funds and a very few "outside" accounts, very little interest is paid on checking accounts in typical country banks. However, as contrasted with large metropolitan banks, the typical country bank aggregate of checking accounts is comprised of a large percentage of small accounts, many of which are so active as to be handled at a loss. A realization of this condition has led to the policy of introducing a "stop loss" or "service" charge on small accounts in a great many banks.

The majority of such service charges are of a kind which might be termed "elementary service charges," that is, they consist of a flat charge per month on all accounts less than a certain size. This type of charge is neither scientific nor equitable, for it does not take into consideration the degree of activity as between accounts subject to this charge. Some of these accounts are so inactive that they are profitable without a service charge; others have such a high degree of activity that they are still handled at a substantial loss even with the service charge. I believe that a scientific service charge, of a type more equitable to both the depositor and the bank than the "flat rate" charge, will gain rapid headway in the future, due to the already wide recognition of the policy of some form of service charge.

It must be remembered, however, that the application of a charge purely on small checking accounts does not anywhere near solve the problem of subnormal profits on the aggregate of demand deposits. Quite a large proportion of checking accounts of a book balance higher than those subject to the small accounts' service charge are decidedly unprofitable, due to excessive activity in proportion to loanable balance. The true situation as to such accounts can only be detected by account analysis. The effective treatment of unprofitable checking accounts with relatively large book balances is still an unexplored field in the majority of banks, but it is a field well worth "exploring" because of the vast potential profit possibilities which it contains.

Must Stand On Its Own Feet

IT is, therefore, the duty of the operative management not only to procure demand deposits as cheaply as possible, from a standpoint of interest paid thereon, but also to make the operative side of checking accounts as profitable as possible by two methods:

Organize the work of handling the transactions involved in such a manner as to result in a very low cost per transaction.

If a checking account customer demands a service in excess of normal, this customer should be induced to pay for this excess service. This policy should hold true for both large and small accounts.

The policy that each checking account should "stand on its own feet" is sound. I believe, that in order to really solve the problem of unprofitable checking accounts, we must change our viewpoint entirely. From a standpoint of the banking process, there is no connection whatsoever between the funds on deposit and the service rendered to the account. All of the confusion which now exists is due to the viewpoint that funds and service are inseparable. Actually, the dollars on deposit represent the "raw material" of the bank, to be "purchased," as cheaply as possible, in the open market through the payment of interest thereon, which rate of interest should be made to fluctuate with the money market rates.

Upon the completion of this "purchase" transaction, the bank is under no further service obligation to the deposit customer outside of possible loan accommodations. In turn, the deposit customer may desire to "purchase" a service from the bank in the form of the convenience to draw checks and collect items deposited, and hence should pay the bank for the cost of this service and a commensurate profit thereon. In practice, this would mean that the bank would pay interest on the net available balance on all checking accounts, and every checking account would pay the bank on a basis of the items of service rendered to that account. That this principle is not altogether revolutionary is witnessed by the already adopted practice on dormant accounts in the payment of a substantially greater interest rate thereon than on active accounts.

Savings Account Policies

THERE is an absolute maximum interest rate which a bank can afford to pay on savings accounts. This rate is governed almost entirely by the average rate of income on the assets into which these savings funds have been converted. Because of the object of a savings account and the characteristics of savings accounts, the assets into which these funds are converted must be of an outstandingly conservative and safe nature; hence the rate of yield of an aggregate of such proper types of assets is quite low, under normal money market conditions.

When we realize that practically all savings funds, outside of those necessary for the primary reserve (which assets have but little yield), should be converted into very high grade bonds, prime first mortgages and loans secured by collateral of an investment type, and little or none into unsecured local loans, we can realize that the rate of yield will not be sufficient to make possible a high interest paid rate and at the same time yield an adequate profit to the bank. A realization of this fact has been the cause of substantial reductions in the rate of interest paid on savings deposits in many banking centers the last few years. But even so, many banks still pay a rate in excess of the economic maximum. In practically all instances, in order to reduce losses or increased profits, the adjustments were made by a flat reduction in rates.

I believe that in the future bankers will more and more study the manage-

(Continued on page 410)

ROME C. STEPHENSON

First Vice-President of the American Bankers Association and Vice-President of the St. Joseph County Savings Bank, South Bend, Ind.

Group Banking in the Northwest

By Trevor O. Hammond
Vice-President, National Bank of Montana, Helena, Montana

American Banking Facilities Considered Far Behind Progress of Transportation, Communication, Factory Mass Production and General Public in Disposition Toward World-Mindedness. Group Banking Advocated as in Keeping With Trend of Times.

The Order of the Day

Why an important agricultural and industrial section of the country is developing group banking is described here. What that section expects from group banks is disclosed. The question is also discussed from the national angle and the argument advanced that if big business and larger units are to be the order of the day then banking must follow the lead. Group banking is held to be the solution in states which prohibit branches.

The Northwest is playing a large part in a new movement which is progressing so rapidly it is difficult for even those responsible for this progress to look forward and analyze as fast as problems and trends develop. The financial and business world is deeply concerned and interested in this new set-up of banking resources, and public interest is so general we believe a frank statement of our plans, aspirations and intent will at this time and place be of more than passing interest.

I do not propose to enter into an argument as to the merits of group banking as against branch banking, or otherwise, but I submit that branch banking which is the general system in England and Canada, is permitted in but seventeen of the states in this country, and the national banking laws do not allow branch banks except as the McFadden Act preserves the status quo of branches now in existence—so that, if public opinion and business progress go hand in hand with big business and merging of capital for the good of all, group banking must be the solution in those states which prohibit branch banking, and, if big business and larger units be the order of the day in other lines—then banking must follow or lead.

Dozens of Questions

Why are these banks pooling their resources? What purposes are being served by group organization and holding company supervision? What effect is the affiliation going to have on the financial future of the Northwest? What is the economic force or cause that brought about the grouping? These and dozens of other questions are being asked of the men who are directing the destiny of these groups.

Let me allay any fears that this may be a plan to become a part of a national chain. This group is designed to serve the Northwest territory solely and exclusively and the distribution of its stock in small units over the Northwest makes it unlikely that control could ever pass to outside hands. The only motive that has been discussed and that has brought about the formation of this group has been what was the best way to facilitate and advance the present business and future growth of the Ninth Federal Reserve District; and, when I describe the possibilities and resources of this great land, it will be readily understandable how vitally interested we must be in the soundness and adequacy of its banking facilities.

This territory has been retarded in its progress and development because of unsettled and unsatisfactory general banking conditions, brought about chiefly through economic conditions, and, as a means of correcting these past difficulties, we have come to believe that with experienced banking talent, larger resources, expert advisors and competency in management, there could be no question as to the benefits that would accrue to the banks in the group in general and to the territory as a whole.

It is an Evolution

The plan definitely contemplates the retention of local management and control of the affairs of the bank in the hands of those men who have heretofore shown their capability, and the central office is being set up with that defined purpose in mind.

Let it not be imagined, as one banker said to me, that the lure was the price paid to the banks bought—for Albert W. Atwood said recently in the *Saturday Evening Post*, that "one Northwest holding company had refused the applications of 200 units", and whether that be true or not, I do know that only banks of highest standing and of a known and long record for integrity, success and earning power, have been invited to affiliate in this new movement.

This is an evolution—it is progress—and we believe it is the beginning of a new era in the great Northwest. We who have joined the group believe we have advanced five years in a few weeks. We feel that a great burden of responsibility to our depositors has been lifted off our shoulders. We think we are on the way toward a new development in banking and industry.

Group banking has two aspects:

1. The mechanical operation which includes,
   - (A) Internal corporate management
   - (B) Personnel
   - (C) Law (red tape in effecting management from the central group by means of corporate machinery of the individual banks)
2. The economic side which includes,
   - (A) Depositor
   - (B) Borrower
   - (C) Community

Space limitations demand that the mechanical side must be slighted. The effect of grouping from this viewpoint presents itself more readily and clearer in that from the mechanical side we have nearly the same benefits and problems—the same picture we have viewed so often in the past with consolidations and mergers in other lines of business.

Greatly Increased Freedom

From the economic viewpoint, I shall confine myself largely to the enumeration of changes which seem to me will accompany group banking.

The obvious thing is that those whose minds are committed to the Federal Reserve System must approve the group plan in theory. Within the credit limits of the group, group banking will furnish that same mobility and expansion of credit to meet seasonal and local demands, which commends itself as a virtue in the Federal Reserve System, and with greatly increased freedom as to character of security and terms of credit.

If there is fear of favoritism on the part of the group managers for some line of industry or interest over that of

another industry or interest, I would call attention to the fact that today with the Federal Reserve System, we are all at the mercy of a fickle Congress, with the power of legislation and the impulse of politics, to change the reserve system law to the prejudice of any industry, and you may judge whether you hazard more in trusting your business credit to the group managers whose interest is linked with yours, than in putting your faith in your congressman, whose interest is necessarily political.

An Omen of the Future

IF there be fear of favoritism of one individual in the local community over another individual, then I call attention to the fact that the group managers as individuals are no more subject to personal prejudices than is the president of a local bank, and the probabilities are that far fewer accommodations will be refused by the group managers by reason of personal prejudice than are now by the local president, in that the group managers will be accountable to the much larger influence of diversified stock-holdings than is the local president with the control of the stock in his bank in his own pocket.

If there is fear that the group will tend to become an "Investment Trust", withdrawing and curtailing the present service of the unit bank in community development, in favor of call money and underwriting operations, then I ask when did business men run away from business oportunities; if there is business to be had and developed in the local community, is it reasonable to assume the group is going to abandon that business? If it did, would not new unit banks immediately seize upon those business opportunities and displace the group in the community? If you say the unit bank cannot live in competition with the group, then you are admitting the unit bank is an economic waste, and it should go.

If there is fear that the group plan will displace with clerks the community leaders which the unit system has developed in the local banker, with the result that service to the community will deteriorate, I ask you if such has been the result in railroad groupings. Is either the Great Northern Railway system, or the Southern Pacific, of less service to the local communities today than when they were a number of small units, each operating independently? Have these modern railroad groupings not been able to develop men to ably take the place of the old leaders, and are they less vigilant in the development of business in the local community than they formerly were? Have not the experience and counsel of the acknowledged leaders advanced the efficiency of the local unit? Will it not be conceded that the modern railroad systems are in advance of banking in economic efficiency? Can you not see in the development of the strong modern railroad system from the weaker units an omen of the efficient service the future bank group will be rendering the territory it serves?

Less Likelihood of Loading Up

FROM the depositor's viewpoint, the larger capital structure, the larger diversification of business over the territory served by the group as against the local bank, will make for greater security. He will have a sense that the group will not let the individual bank unit fail, and he will be justified in this, for there will necessarily be a more thorough, more intelligent examination and supervision of the loans and practices of the unit bank by the group managers than is had by the governmental system of examination and supervision. There will be, under the group plan, far less likelihood of the bank loading up with a bad line as a result of some peculiar slant of its managing officers. Credit accommodations will be extended more on the careful analysis of the borrower's statement than on the enthusiasm of the president, or other officers, in some local boom.

If the banking industry in the United States is to anticipate the needs of modern business, in the direction of the possible expansion and betterment of that business, it seems inevitable that some plan more far-reaching and more sensitive to the demands and possible development of the world markets must be devised.

If the United States is to be the world's banker, some means must be devised of drawing on the general credit of the whole country for those loans. If we limit this business to the resources of the banks of the few larger coast cities, they will be far less able to accomplish the business of the world banker than they would if they had access to the great credit resources of the whole nation. That access cannot be had, or rather depended upon, except by tie-ups of the character of group or branch banking.

Banking Far Behind

IF the farmer or manufacturer of the United States is going to produce for the world's markets, or be in competition with the world, as he will be, so long as he expects to market a surplus over the demands of the home market, his local bank is no proper partner for him. His local bank has no more sensitiveness to world demands than has the local farmer. By the present system, only the middleman thinks in terms of world markets, or is sensitive to world markets.

If mergers, consolidations and cooperatives are the necessary and natural instrumentalities to produce and market in competition with the world, then the banking facilities of the country must be so marshaled as to furnish credit for those mass operations. It is idle to say the whole nation is not interested in world markets. The price of wheat to the smallest farmer depends on the world markets, and he does not get the break, because the middleman is, and he—the farmer—is not, sensitive to the world demands. The factory runs one-half time for lack of knowledge of markets or lack of knowledge of some other product for which there is a market.

It must be admitted that, instead of being in advance, the banking facilities of the United States, taken as a whole, are behind the progress of transportation, communication and factory mass production, and far behind the general public in disposition to world-mindedness in the matter of disposing of surplus production in the world markets.

If the producer (other than the very largest concern) is to be made sensitive to the demands of world markets, the banks will have to be the means of contact. It is useless to rely on government or quasi-government agencies for permanent guidance in these matters, and banking organizations of size and selfish interest sufficient to justify an organization skilled in gathering that knowledge peculiarly beneficial in the territory served is the practical intermediary between the producer and consumer of our surplus production, whether the consumer be in a foreign country or in distant parts of our own country, and a country of large natural resources will never fully develop without contact with world markets or without strong banking interests.

They Want a Chance

WITH a few notable exceptions, development in the Northwest has been largely due to individual personal initiative.

Development has reached that stage now where it is beyond the financial capacity of the individual.

Such industry as the Northwest has had has largely been the extractive state —the production of raw materials transported elsewhere for fabrication into finished products.

Secondary industrial development in the Northwest is well under way, but if it is to hold and expand its markets, it must have the financial resources which its competitors likewise have, and which the individual institution is unable to supply.

No part of the country has richer or more varied resources than the states in the Ninth Federal Reserve District. Their citizens are not content that the only benefit they derive from these resources be their extractions; they want a chance at the increment incident to their processing into finished articles of commerce.

Resources in Abundance

THEY want to turn their wheat into bags of flour; their flax and zinc and lead into paint; their iron ore into road graders, safes, filing cabinets, barb wire; their copper into wire and rod and brass and bronze; their manganese into steel alloys; their hogs into hams and bacons; their peas and beans and corn into canned articles of the grocery store—their thousand and one other raw products into such shape that they will be ready for the consumer.

This will not come in a day. But—un-

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The Advantages of Group Banking

By ANDREW PRICE
President, Marine Bancorporation, Seattle, Wash.

Group Banking Seen as Forerunner of New System in Harmony with American Standards and Ideals. Movement Regarded as a Step in Direction of Rendering Failures Impossible. Belief Expressed That Opposition to Bank Concentration Is Waning.

A RECENT survey discloses that the resources of banks associated together in groups in the United States are in excess of $12,000,000,000. Over 1700 banking offices represented in these groups are in operation in thirty-six states in the Union. The organizations of these groups differ in some of their details and plans of operation, but generally the ownership of the stocks of the banks included is through the medium of a holding or associated company. Many such companies own banks in more than one state. Some are identified with banks operating branches and many operate in states which permit branch banking.

The bank holding company movement is obtaining momentum in the country as well as in the city, in sparsely settled as well as densely settled communities, and includes both national and state banks. It presents a subject of great public interest as well as a subject which is absorbing the attention of the keenest minds in the banking profession and of our state and national lawmakers.

Free from Bad Banking

AND well it may be, for it is an entirely new expression of banking development. In general, group banking is a legal adaptation of and substitute for branch banking. It is the result of the inexorable working of strong economic forces which have long demanded action and expression. It is the answer to public demand and industrial urge for an improved banking system, better able to protect and serve modern business and better able to cope with age-old deficiencies in our present unit banking system.

Group banking preserves many of the ideals of American unit banking. It retains local character through retention of local management and personnel. Through the broad dissemination of its stock through the communities which it serves it preserves local interest and substantial local ownership. It provides the vehicle for assembling large capital, so essential to safe and sound banking.

Fortunately, group banking has thus far generally been under the leadership of honest, capable, conscientious bankers. Much of its popularity and favorable public reception can be attributed to this fact. Under this leadership, bank holding companies have been kept free from the bad banking methods of earlier chain banking systems. In addition, these bankers, from their experience with large banking and industrial organizations, have introduced into group banking many practices for the protection and profit of their member banks, which are not possible for the independent unit bank.

Greater Mobility

CONSPICUOUS among these are improved practices, better accounting and auditing methods, and central investment organizations under the direction of experts whose facilities are available for the service of member banks as well as their customers, and above all, bank holding companies which are properly conceived and set up with ample capital, under sound and capable management, increasing the safety of deposits of their member banks.

Through the medium of bank holding companies, greater mobility of commercial banking funds can with safety and propriety be provided. Desirable loans, too large for an individual bank, can be handled by division with the holding company and other members of the group. Excess funds of one member bank can be employed by other member banks, with profit to both and benefit to large worthy borrowers. By the same token, it permits of a geographical distribution of risk as well as a diversification of credits and investments. As in all matters of insurance, the area covered must be of a sufficiently diverse character to give reasonable assurances that losses in one section will be offset by gains in another.

In large cities, group banking has helped to relieve customers from the inconvenience and delays caused by increasing traffic congestion, by furnishing customers the services of the main or mother bank through member banks in the various outlying districts. In some instances in large cities, holding companies or similar vehicles have been the means of effecting mergers of trust companies and national banks thereby avoiding the complicated questions recently raised by the Worcester and similar cases.

Few Changes Are Made

OTHER factors contributing to the growth of group banking are the desire of unit bankers to obtain and develop new business through association with larger and more powerful organizations, and to convert their own bank stock investments into stock having a broader market. This in many cases holds the greatest appeal to the unit banker to join a bank holding company. It arises not solely out of the desire to increase the value of the stock belonging to himself and his stockholders, but out of a thoroughly wholesome desire to protect himself and his stockholders, and perhaps even his bank, from the consequences of a limited market for its stock. This is especially true of one man controlled banks.

Bank holding companies are taking on the responsibilities which older unit bankers are laying down, an arrangement to the benefit of each, especially since holding companies for obvious reasons desire to retain the services of all capable bank executives. The result is that few changes are made in official personnel of banks acquired. In effect the officers of these banks simply join a larger official family with whose members they may share their burdens, but to whom they relinquish few of their prerogatives.

An important part of every well rounded bank holding company plan provides the means and organization for other classes of investments as well as bank stocks. The profits from these operations, which banks cannot themselves perform, augment and fortify earnings in a manner not available to small unit banks. They are in part the answer to the rapidly decreasing margins of profits in the banking business in general and in the small unit bank in particular.

These are some of the reasons why group banking through the medium of bank holding companies is growing apace, and is being participated in by some of the leading bankers of the nation.

Striking Similarity

WHAT are the characteristics of present day bank holding companies? In general they are private corporations not under state or national banking department control. This is not as serious as at first might appear, for it must be borne in mind that banks belonging to holding companies are just as completely under the control and supervision of state and national authorities after becoming members of a group as they were before. If new problems in con-

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Old Fashioned Unit Banking

By MAX B. NAHM
Vice-President, Citizens National Bank, Bowling Green, Kentucky

Local Credit Can Thrive Best in a Unit Bank, Local Capital Having There Its Best Scope and Opportunity Is Belief Held Despite Drift to Bigness. Membership in the Federal Reserve System Declared Guarantee of Independence for Small Banks.

LET us be frank with ourselves and face the problems of the day with an open mind. Are we in danger of losing ourselves in a jungle of banking ideas, drifting into a tropically luxurious growth of methods and varieties, so varied and so complex that we may not be able definitely and surely to see our way out?

Are we departing so far from our old landmarks, our dual system of banking, state and national, that has served us so well for nearly three quarters of a century, that we have set up six kinds of banks operating under Federal charters—National Banks, Federal Reserve Banks, Federal Land - Banks, Federal Joint Stock Land Banks, Federal Intermediate Credit Banks and Postal Savings Banks. Now we see springing into being, full grown and armored from the heads of our old gods, like Minerva from the head of Jupiter, chain banks, branch banks, group banks, holding companies, added to our old state banks, till our hydra-headed bank-system leaves us at a loss to know at which shrine to bend our knee.

Are we to drift into a financial middle-age feudalism, where we are economic vassals either of the Federal government or of a few big city corporations who know us not and whom we may never see?

Anchored

UNIT banking is here described as the genius of the American people in financial action and the claim is made that when all the new systems now in the process of development have been tried out, the unit bank will be anchored to its stob with resources within itself to meet the emergencies of the community which it serves. A call is sounded for a return to first principles wherein good banking is considered not a matter of bigness but of meeting the demands of the community.

"Lost in This Jungle"

IS it not time to drive down a few stobs into the solid ground and hang on to them before we are lost in this jungle of banking confusion worse confounded?

I want to drive down one stob for a national banking system, revamped if need be; but, most of all, I want to sink deep the stob of the unit bank under whose care and guidance we grew up. It is time that we return to first principles.

The history and the development of the individual began only with our Declaration of Independence that all men are born free and equal. All history before that time was the story of kings and queens and lords and ladies.

Right into the beginning of banking went the evolution of the individual, the unit banker. With the hardiness of the pioneer, he kept pace with the covered wagon. In a shack he banked the proceeds of a gold rush or a mushroom mining camp. He helped to fight our wars, to develop our vast expanse of lands, to rear our children, to bury our dead. His history has run parallel with our changing fortunes.

No Law Can Create Morals

BANKING is a business, the people's business. It has common law rights. It is not a function of government nor a creature of government. It deals in credits which grow out of commerce and agriculture, in the production and exchange of the needs of human life. Soon the cash capital and surplus of organization and the deposits lose their form and become credits.

Government acting for the people should supervise but not exercise unlimited control. Control rests only with directors representing ownership. Supervision cannot make loans safe. Only trained brains and honesty can do that —the same trained brains and honesty that must protect and they alone can protect—branch, group, holding company or unit.

No law can create intellect or morals; they are born. Even government guarantee of deposits—the full measure of government interference—has been a failure.

Out of 25,000 unit banks between 1920 and 1928, 4458 state, private and national banks closed their doors. True, no doubt, they would have closed their doors had they been chain, group or branch banks.

Like Houses of Cards

NOT all of them failed. The communities failed. There was a pioneer need for banks at cross roads and in villages. Many were speculations started to sell safes, fixtures and jobs. Their service and clientele passed on to the larger cities when hard sense operating on hard roads with cheap automobiles and trucks came. With these disappearing banks went the country store, the country doctor, the preacher and the inhabitants. They all went together. No group, chain or branch could have maintained a bank at such a place. Give a dog a bad name, and somebody will kill him, but do not put a curse on the unit bank for community failures.

In Kentucky, in the last thirty years, only six cities have increased as much as 10,000 inhabitants. Many small villages and towns have become nearly extinct. In Minnesota a recent survey shows that 144 small communities, once provided with banks, no longer have business to maintain them.

To stay on the map, a town must locate factories or colleges or become a center of a net work of roads and draw from other towns. So we must not condemn a system because of seeming failures that would have destroyed any type of banking. Good banking is not a matter of bigness or wide extent.

A system of chain banks well run and officered may have advantages to offer, yet it affords no specific cure for all ills. Recently the Bankers Trust Company of Atlanta closed its doors and immediately eighty-three banks of this chain in Georgia and Florida went down like houses of cards with consequent disaster to all these communities.

Better Banking the Remedy

BRANCH banking is far preferable to chain banking and the 3,000 branches in twenty states speak loudly

in favor of the growing 800 banks with their far reaching branches, but they are no guarantee against disaster. Do we forget that in 1893 in Australia thirteen great systems with branches having $400,000,000 in assets closed their doors? Do we not recall that in Canada the Home Bank with seventy-eight branches and the Merchants Bank with four hundred branches failed? Have we in mind the fact that in South Africa, land of branch banking, the government had to relieve the big branch banks or face a general failure?

When a chain lets loose with the breaking of its weakest link, what is left, if anything, but a lot of unit banks to pick up the wreckage and go ahead—sometimes only a zero instead of a unit.

What is the remedy? Better banking, where there is a field for a bank to thrive—that is all. There must be a scientific revision of banking practices in unit banks. To live banks must have a capital even in the smallest communities of not less than $25,000 preferably $50,000 and as much surplus as possible. No bank should be chartered where none is needed or the field properly served. Bankers must have training and experience. Banks must maintain proper secondary reserves and balanced investments. Adequate state banking laws and supervision must lend a steadying hand.

Must Work for Itself

WHY is industry succeeding better than banks and agriculture? Because it is submitting itself to scientific overhauling by the smartest intellects in the world. Our country banker and farmers plant their shapely tan low-cuts in the hob-nailed foot-tracks of their forefathers. I know one bank that never had an endorsement or a collateral.

Absentee ownership with no community love is not a cure-all, nor is a morning letter to a manager telling him what rate to charge, what to advertise, and what to say to clients. It requires a high grade of talent to operate a bank successfully in small towns and I know some that would be $50,000 men in big cities. That grade of talent cannot be bought or hired. It must work for itself. Small banks are bankers' universities and graduate some of the world's greatest geniuses. Leash that man to a boss and in five years he will deteriorate to mediocrity if he stays.

Most country bank failures originate in frozen real estate loans. In an agricultural community it requires high ability to furnish proper credits and avoid excessive farm loans. Several joint stock loan banks have stumbled into receivership because of that difficulty, and insurance companies furnish livings for lawyers in foreclosure proceedings as a penalty for over-loaning on farms.

Boxed In by a System

ONLY the well posted unit banker thoroughly identified with his community can solve that problem—nay more, can assist and develop the worthy individual through an intimate knowledge of his affairs and can check the schemes of a rascal. Two examples of actual occurrence may illustrate this.

A hard working young man just married, a fine upstanding typical Kentuckian, applied to a bank for a loan.

"I have saved $500," he said. "I need $250 more to buy a lot on which to build a home."

The banker knew his man, made the loan and today this borrower is a captain of industry and an ornament to the community. A bank manager for a chain or branch would have been compelled to answer, "Rule 318 forbids loans on unimproved real estate." A wise rule, but the development of a community cannot be boxed in by a system of foreign-made rules.

Unfortunately bankers sometimes have an inhuman side. A farmer came to a Kentucky banker and said:

"I need $100. My wife and children are sick with pneumonia. My mule that I depended upon fell into a sink hole and broke his leg. My cow died with calf. I must have the money!"

"I cannot lend you anything on that story, but go across the street," the banker answered, pointing to a rival and not well posted bank, "tell them you have a fine crop, folks all well, good mule, cow and calf, and you will get the money."

The farmer returned presently and said, "Thanks. I got it."

Double Liability Destroyed

SO it does not solve banking troubles to limit local business facilities or to kill local business initiative and development.

The double liability of stockholders of both national and state banks has been helpful protection to depositors, recovering when necessary about 60 per cent of the loss. When a holding company exchanges its stock for that of unit banks and trust companies, the holding company is doubly liable but the individual shareholders of the holding company who have transferred their bank stock in exchange for shares in the holding company escape all liability. Therefore double liability is destroyed unless the holding company acquires negotiable securities equal to the par value of all bank stocks they own. This has been done by only some of the best class of holding companies. In Missouri the Attorney General has held it illegal for a holding corporation to acquire controlling interest in such banks or trust companies.

For all the banks in a community to have the same city correspondent where their resources are lumped does not make for the same protection as when independent banks select different correspondents in widely separated cities avoiding territorial depressions.

An Anchor to Windward

THE small unit bank in any community can maintain its independence in competition with any branch or chain system by becoming a member of the Federal Reserve System. It can hold its traditional relation with its city correspondent and besides secure a guarantee against tight money conditions by the protection which the Federal Reserve System has afforded for fifteen years.

With this anchor to windward, it can serve its patrons in comfort under any conditions that may arise in good banking. It is the one guarantee that the unit bank can continue to exist.

The relation between banker and customer in small towns is sacred. Years of association as friend and client have built up a relationship that cannot and should not be dumped into another perhaps unfriendly camp by purchase and sale. A customer is not a mere piece of merchandise. Such a transfer of ownership may amount to a break in history that spells ruin to a family. A bank is in intimate community alliance between customer and trusted bank officers that should not be bought or sold.

His Master's Voice

A SMALL unit bank can be properly conducted and can make good loans intelligently. Local credit can thrive best in a unit bank, and local capital there has its best scope and opportunity.

We can sympathize with this landslide to bigness, mass production, creation of enormous units and ambition for great profits. Yet our free and independent unit banks, standing on their own foundations, have resources within themselves to meet emergencies. The president and the board of directors of such a bank are residents and prominent in all local affairs. Its business is germane to that community alone. It is the genius of the American people in financial action. When all these new systems have been tried out, the unit bank will still be anchored to its stob, sunk deep in the wilderness.

In the smaller towns, the scheme of life is not complete without the local unit banker, men like Callie Harris in the town of Franklin, Kentucky. Benign-faced, with a smile for everyone, an optimist in all emergencies, family and business, adviser to every patron or friend, trustee of every church or hospital loan, executor when men died—dedicating their souls to God, and their estates to the banker. He befriended a poor foreign peddler with his pack on his back, nursed him from death's door back to health. His peddler became a great and successful merchant and when he died, his will gratefully gave his large estate to this banker. When Mr. Harris was buried, nearly every man, woman and child in his county came to drop a flower on his red clay grave. Replace such a man by a city clerk awaiting every morning a circular letter, or his master's voice out of a loud speaker's horn? God forbid!

H. J. HAAS

Vice-President, First National Bank, Philadelphia; Incoming Second Vice-President, American Bankers Association

The National Bank Division

Study of National Banking System Problems by Committee of Best Minds Available in United States Proposed by Incoming President of Division. Discussion of Branch, Group and Unit Banking Opened. Proper Investment Policies Are Considered.

CALLED to order on Monday morning, September 30, by President Edgar H. Sensenich, president of the West Coast National Bank, of Portland, Ore., the annual meeting of the National Bank Division was the first of the major activities of the Fifty-fifth Convention of the American Bankers Association to get under way.

In his annual address to the Division, Mr. Sensenich "fired the first gun" in the discussion of branch, group and unit banking at the Convention. He considered the trend toward group banking as a development of the times and foresaw the question of Federal supervision of all banking as a matter for consideration in the not too distant future. His address will be found elsewhere in the JOURNAL.

Officers Elected

JOHN W. BARTON, vice-president of the Metropolitan National Bank, of Minneapolis, Minn., was elected President of the Division for the ensuing year and E. S. Wolfe, president of the First National Bank of Bridgeport, Conn., was elected Vice-President.

Prior to the election of officers, H. J. Haas, vice-president of the First National Bank of Philadelphia, who was Vice-president of the Division during the past year, requested the nominating committee to eliminate all consideration of him for advancement to the presidency at the time. Members of the executive committee were named as follows: First Federal Reserve District, Irving W. Cook, president, First National Bank, New Bedford, Mass. Eighth Federal Reserve District, Samuel E. Ragland, president, First National Bank, Memphis, Tenn. Ninth Federal Reserve District, P. J. Leeman, vice-president, First National Bank, Minneapolis, Minn. Eleventh Federal Reserve District, S. M. McAshan, president, South Texas Commercial National Bank, Houston. Fifth Federal Reserve District, W. C. Wilkinson, president, Merchants and Farmers National Bank, Charlotte, N. C.

A Good Job

PRESIDENT Craig B. Hazelwood, of the American Bankers Association, was introduced to the Division by Mr. Sensenich. Mr. Hazelwood said:

"First of all, I want to commend the very efficient and fine program of this Division for the past year. Under your able President you have done a good job.

"The state of our national banking system is giving a good many people concern and there are various remedies proposed. I think if any of us had a rundown in our system and we were to go in to one of those large buildings full of doctors' offices that we have in the large cities and look up a dental surgeon, the possibilities are we would be told that a tooth had to be removed. If we saw an eye, ear, nose and throat specialist, the possibilities are that the tonsils would have to come out. If we saw an osteopath perhaps our backbone would have to be cracked. We would get a variety of suggestions, I have no doubt, and the probabilities are that we would do well instead to consult an expert diagnostician who had no particular remedy in mind to begin with.

J. W. Barton,

Vice-President, Metropolitan National Bank, Minneapolis, Minn. Incoming President, National Bank Division, American Bankers Association

Performed a Noble Part

I HAVE an idea in relation to the troubles of the national banking system that something of the same situation may exist. At least, I have seen suggested a good many remedies for this rundown system, some of them that appear to have logic behind them and some of them that appear to have some other interest behind them. But I would recommend to this Division composed of able bankers and headed by an able committee on administration that they put themselves in the position of an expert diagnostician and give careful study to this problem, to determine the real elements and the real causes that enter into this falling-off in the national bank system. The national banks of this country, the backbone of the Federal Reserve System, have performed since the war a very noble part in the carrying on of the banking business of this country. There can be no question of the stability, the worthwhileness of the national bank system, and I commend to you gentlemen the careful study of this matter, so that we may not make what we call in baseball any 'wild throws.' I think it is important, and I have that in mind particularly after reading some of the things that I see in the daily press."

"Consolidations as Affecting Trust Departments," a paper prepared by W. H. Rand, Jr., vice-president, Atlantic National Bank, Boston, was read to the Division by Deputy Manager Edgar E. Mountjoy. It appears elsewhere in this issue. Investment policies for national banks were discussed by Arch W. Anderson, vice-president, Security-First National Bank, Los Angeles, and the national banking trend was described by George H. Hamilton, vice-president, Fourth National Bank, Wichita, Kansas. Their addresses also appear elsewhere in this issue.

After his installation by Mr. Sensenich, President Barton addressed the Division, promising the appointment of

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The Next Step in National Banking

By EDGAR H. SENSENICH
President, West Coast National Bank, Portland, Oregon

Branch, Group and Unit Banking Called the Really Big Issue Before American Bankers. Direct Rather than Indirect System of Management Thought Best. Question of Federal Supervision For All Banks in United States May Soon Be Up For Decision.

AT its first meeting this year the executive committee of the National Bank Division decided to continue to oppose as vigorously as possible any effort to eliminate the national bank circulation from the currency of the country. The adoption of this policy was determined not alone upon the fact that this division had at several of its annual meetings gone on record in favor of the retention of the circulation, but also upon the results of extended correspondence with national bankers and upon the replies received from a questionnaire sent to the entire divisional membership which were overwhelmingly in favor of the circulation retention.

We are glad to report in this connection that the vigorous efforts of the division early this year seem to have been effective and that the national bankers need not worry about their circulation privilege for some time to come.

With the thought there was room for further improvement in the relationship of the member banks with the Federal Reserve System, the executive committee authorized the appointment of the special committee to study ways and means of clearing up some of the misunderstandings which seem to continue to exist between the system and its members and of developing a closer cooperation between them.

The committee has under observation the effectiveness of stockholders' associations organized by member banks in several of the Federal Reserve Districts, but it is not ready to make any specific recommendations. The recent and rapid changes in the types of securities offered to banks for the investment of their secondary reserves and otherwise idle money prompted the committee to authorize the appointment of an investment committee.

The Chicago Conference

THE president's call for the conference on bank management, which was held in Chicago last spring, met with our full approval and we made a direct appeal to the national bankers of the mid-west territory to attend and participate in the conference. This conference was so largely extended, developed so many excellent discussions on practical banking subjects and stimulated such great interest in better banking methods that it undoubtedly marks an important advance in the program of constructive and helpful work of the American Bankers Association. The conference will likely prove to be the outstanding event of President Hazlewood's administration and he is to be congratulated upon its success and its great resultant value to the American banking profession. We sincerely hope the success of this Mid-West conference will lead to the organization of similar meetings in other sections of the country.

An Amazing Trend

THE retiring President of the National Bank Division found in his tenure of office that the sweep of group banking throughout the country was astounding. He concludes that there is little doubt that the public is ready for larger and more efficiently directed aggregations of banking capital. At the same time, it is his opinion, as expressed here, that serious consideration must be given soon to the Federal supervision of all banking in the United States.

This division cooperated with the Trust Division in the organization and conduct of the Fourth Mid-Continent Trust Conference held in Tulsa, Okla., last December. Many subjects of common interest to the trust departments of both state and national institutions were discussed and I am sure our divisional members who attended were amply compensated for the division's part in the meeting. In this connection it is gratifying to report the steady and rapid increase in trust activities of national banks.

On Aug. 15 this year, Comptroller of the Currency, J. W. Pole, announced that a comparison of figures compiled as of June 29, 1929, with figures compiled June 30, 1926, showed during the three-year period an increase of 416 or 20.53 per cent in the number of national banks authorized to administer trusts; an increase of 630 or 57.07 per cent in the number of national banks operating trust departments, an increase of 49,935 or 191.67 per cent in the number of trusts being administered by these banks; and an increase of $3,315,319,986 or 359.45 per cent in individual trusts and an increase of $4,906,601,140 or 199.17 per cent in the volume of bond and note issues outstanding for which national banks were acting as trustees. On June 30, this year, 1734 national banks were actively operating trust departments.

A *Disturbing Decision*

THE continued relinquishment of national charters is a source of great concern to those of us who have pinned our faith to the national banking system and who have always believed and claimed for it superiority over any other system of banking. So far as I can learn, the public has never given any evidence of a loss of confidence in the national system but certainly there is ample evidence that in the banking profession national charters are becoming less popular, if not less desirable.

When increasing numbers of great banks with enviable reputations established throughout this country and abroad, and who for decades and even from the very inception of the national banking system have operated under national charters, are willing to surrender their national for state charters and are even willing to surrender their time-honored names and be submerged in state chartered institutions with less familiar titles, then we are certain of the existence of underlying and important reasons for their action. Various and many reasons are advanced for these defections.

The trust decision in the Worcester County National Bank case is given as one of them. Regardless of the legal interpretations given to it, the decision has undoubtedly thrown a cloud over the certainty previously existent that when a national bank absorbed a state institution with trust powers these powers accrued to the absorbing bank. The doubts raised by the decision have been sufficient to influence some trustors to warn their corporate trustees operating

under state charter that they would look with disfavor upon a transfer of their trusteeship to a national bank through absorption or consolidation.

I think we can say with reasonable certainty that the decision is a setback to the Federal banking system. I make no claim to a knowledge of the legal phases of the decision and have no opinion of my own to express in that connection, but as a life-long student of the lives and opinions of those great men who had to do with the making of America in its early stages, I frequently wonder what opinion Chief Justice Marshall might have expressed had the opportunity been given him to consider the Worcester County National Bank case.

A Vital Subject

ANOTHER reason given for withdrawals from the national system is that Congress is too deliberate, or rather too slow, in its methods to enact banking legislation that adequately meets the rapidly and continuously changing conditions in the economic life of our country, and that state legislatures respond more readily and more quickly to the changing needs of the banking fraternity in their respective states.

The subject is a vital one not only to every national banker but to this organization as well. During the past year the executive committee has lost two of its fifteen members because the banks with which they were officially connected withdrew from the national system. One of them, Alan T. Bowler, who was a vice-president of the American National Bank and Trust Co. of Greensboro, N. C., which institution has now merged with a number of other North Carolina banks, both state and national, into a state institution, the North Carolina Bank and Trust Co., stated, in his letter of resignation which I received just a few days ago:

"I hope that something will soon be done with the national bank laws so as to liberalize them to the extent that statewide, at least, branch banking under the national banking system will be allowed. I hate to see so many banks giving up national charters."

Since receiving Mr. Bowler's letter I have read a press dispatch announcing that another merger was under way in North Carolina involving seven national banks who plan to give up their national charters and unite under a state charter with headquarters in Charlotte.

The Really Big Issue

WHEN we open a discussion of branch, group and unit banking we hit upon the really big issue before the American banker today. I prefer to speak now as a member of the banking profession and not as the president of the division and will admit at the outset that I am officially connected with a bank holding corporation and my observations and opinions may be governed accordingly.

Personally, I can see no great issue between branch and group banking for reasons to which I will later refer. The real issue is between these two systems and unit banking. It has been interesting, to say the least, to follow the development and rapidly changing aspects of this issue. With rare exceptions every Convention of the American Bankers Association held in recent years has developed in some form or another a discussion or contest between the advocates of branch and unit banking. Group banking has become a really live topic for discussion and the proponents of unit banking are its most active opponents.

How real this opposition is may be indicated by a late report of a Washington professional correspondent stating that independent bankers visiting Washington recently tell him that while they are opposed to further extension of branch banking, they cannot stop group banking, and, therefore, are preparing to accept congressional legislation for big-scale branch banking. If this is true, is it an indication that the fight against branch and group banking is lost? Is unit banking on the skids?

An Astounding Sweep

AGAINST the stiffest kind of opposition in banking circles and legislative halls, branch banking has made yearly gains in this country and never before has that system of banking had such favorable support as it is receiving at the present time. From the highest to the lowest in banking circles come more and more frequent expressions of opinions favorable to the extension of branch banking, either city-wide, state-wide or nation-wide. If legislative action was more quickly adjustable to changing opinion we would undoubtedly be witnessing at the present time a rapid extension of the branch banking system. It is the failure of legislatures to move more quickly in banking legislation that has led to the introduction and rapid development of group banking in this country.

The rapid extension throughout the country of group banking is truly astounding. Receiving its real impetus on the West Coast only a few years ago it has already spread into practically every section of the nation and the announcement of new group organizations is an event of frequent occurrence, and more and more of them are of unusual importance from the standpoint of resources and prestige of institutions involved. How many groups are now operating in the country it is impossible to state, but information received from the best available sources indicated that in the Twelfth Federal Reserve District alone there were on June 30 last twenty-two holding corporations and fourteen individuals or groups of individuals controlling or holding substantial interest in two or more banking institutions.

At first holding companies preferred to confine their ownership of banks to such as were located within a single state; later, and with some hesitancy, they reached over into neighboring states, but in recent months some have thrown such territorial limitations to the winds and are in the market for and actually buying banks located in outside Federal Reserve Districts. One such company has openly announced its substantial interest in a line of banks stretching from the Atlantic to the Pacific. The country is covered with group banking scouts and there is scarcely a bank of favorable standing and strategically located that has not been approached or at least is under observation. Every banker who is alert knows this to be true and the surprising thing about all of it is how many independent or unit bankers, including many who are openly opposed to group banking, are willing to be approached and to listen to reason.

Had a Waiting List

THE approach of the promoters of group banking is usually so subtle in character that even those who are strong advocates of the unit system find that their good business judgment will not permit them to deny it consideration. If they were otherwise, would they be fair to their communities, their depositors or their stockholders? I doubt whether there is a single group organization of any importance that does not have a waiting list of independent banks that are willing to negotiate a trade or a sale of their controlling stock. Only recently it was stated that one of these organizations had a list of a hundred waiting banks. What all this spells for unit banking I leave to the imagination.

While, as some charge, a desire for wealth and place and power may play a part in the current evolution in banking in America, yet we must realize that the contributing factors are largely economic in character. It must be admitted by all that the unit system of banking has contributed in a measure beyond estimate to the upbuilding of the nation, and those of us who have spent life-long careers in that system are proud of its inestimable accomplishments. Nevertheless, we cannot overlook economic changes since the World War, the trend of which changes are toward closer ties between communities, great and small, and between industries and institutions of competitive and even of non-competitive character, a trend cooperative in character for the elimination of aggravating differences, unwise competition, and unnecessary wastefulness and for the promotion of healthy rivalry, greater efficiency and more intelligent and ample facilities for meeting our national opportunities and responsibilities. Unit banking has been and continues too individualistic in character to adequately follow such a trend.

Public Is Ready

THE record of American banking during the past ten years has not been above criticism. The many failures that have occurred have impressed the people, especially those who have directly felt the consequences of these failures, with the thought that a change in banking methods and standards is due, and there is a general demand for better and

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How Mergers Affect Trust Departments

By WALDRON H. RAND JR.
Vice President, Atlantic National Bank, Boston, Mass.

Banks, Either State or National, Retain in Consolidation by Virtue of McFadden Act the Right to Hold and Administer Under Charter of Consolidated Bank All Fiduciary Assets at Time of Merger Subject Only to the Local State Regulations.

CONSOLIDATIONS we always have with us—in manufacture — in commerce — in banking. The world of finance is no stranger to them.

And always in these consolidations problems arise for solution; problems of organization; problems of law; problems of business expediency.

Bank consolidations have proven no exception to this rule. Their problems have been many and real. The particular problem to be considered here is how that important branch of modern banking, the probate fiduciary business (customarily administered in a so-called trust department), is affected by bank consolidation—by the merger of two or more banks having such trust departments.

From the Legal Side

IT is my intention to approach this problem mainly, if not entirely from the legal side; to sketch briefly the present attitude of our courts and our legislative bodies, state and Federal, toward this question; at least, insofar as any attitude in this matter has been taken by these interpretative and governing bodies. I do not intend to deal at all with the business technique of such consolidations.

A few years ago the Commonwealth Trust Company of Boston, Massachusetts and the Fourth Atlantic National Bank of the same city, decided to consolidate. In order to take advantage of the Federal consolidation statute as it then stood, and retain its branch offices, the Commonwealth Trust Company was first converted into the Commonwealth National Bank and received a Federal charter. Then, the two banks were consolidated under the name of Commonwealth Atlantic National Bank (later changed to the Atlantic National Bank) under the existing charter of the Fourth Atlantic National Bank.

From this consolidation arose two legal proceedings, both of which were dealt with on appeal, by the full bench of the Massachusetts Supreme Court and one of which thereafter came before the United States Supreme Court on Writ of Certiorari. The two cases were: Commonwealth Atlantic National Bank Petr., 249 Mass. 440, and Commonwealth Atlantic National Bank, Petr., 261 Mass. 217.

Certiorari Denied

THE first of these two cases was based on the following facts: Before conversion and consolidation the Commonwealth Trust Company had been named as executor under a certain will, the maker of which was still living. The Commonwealth Atlantic National Bank (the new consolidated bank), upon the decease of the testator, which occurred after the consolidation had become effective, offered this will for probate and also petitioned for its appointment as the executor named in the will. The Massachusetts Supreme Court, upon appeal from the decision of the Probate Court refusing this petition, affirmed the decision of the Probate Court, stating that the appointee by will of the deceased was a state bank, to wit, the Commonwealth Trust Company, whereas the petitioner, the Commonwealth Atlantic National Bank, was an entirely different entity, namely, a national banking association, and as such, subject to entirely different supervision and control and not by any manner of means the corporate entity named in the will and in the testator's mind at the time he executed same.

It may be that I should here call attention to a point of Massachusetts statute law affecting the case—a point to which further reference will later be made. Under a Massachusetts statute passed in 1922 (Chapter 292) and in effect at the time of the consolidation, it is provided that "The Charter of a trust company, the business of which shall, after July 1, 1922, be consolidated or merged with, or absorbed by another bank or trust company, shall be void except for the purpose of discharging existing obligations and liabilities." This decision of the Massachusetts Supreme Court was taken to the United States Supreme Court on writ of certiorari and the petition for the writ was denied.

"The Pot Kept Boiling"

THE second of these two legal proceedings, in which the Commonwealth Atlantic National Bank was also petitioner, was based on the following facts:

Prior to the consolidation of the two banks, the Commonwealth Trust Company and the Fourth Atlantic National Bank, the Commonwealth Trust Company had been by the Massachusetts Probate Court qualified as trustee named under the will of a deceased resident. The new consolidated bank, on the ground that it was continuing trustee, filed a request for the allowance of its annual probate account. Here again, the Massachusetts Supreme Court upon appeal confirmed the decision of the Probate Court in refusing to allow the account, and denied to the consolidated bank the right to do anything further as trustee except turn over the assets of the trust to whomsoever should be appointed by the Massachusetts Court as succeeding trustee. The newly consolidated Commonwealth Atlantic National Bank, upon receipt of this opinion of the Massachusetts Supreme Court, promptly set to work and obtained appointments by the Massachusetts Probate Court under its new consolidated name and charter, as succeeding trustee, executor, administrator, guardian, conservator and the like, in all cases where the Commonwealth Trust Company was acting as fiduciary under appointment of the Probate Court at the time of consolidation. Also, in all cases where to its knowledge the Commonwealth Trust Company had been nominated as executor, or trustee, in wills of persons still living, the new consolidated bank took steps to have the name of the executor or trustee changed to that of the consolidated bank and (here I call attention to what may prove a wise precaution) added the words "its successors and assigns," in such codicil change.

Still, the pot kept boiling in Massachusetts as regards the trust departments of consolidating banks. Shortly after these two cases there arose in the Massachusetts Courts two more cases in quick succession and dealing with the same subject. In both of these two cases the Worcester County National Bank appeared as petitioner.

The Merchants National Bank of Worcester and the Fitchburg Bank

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Intelligent Investment Policies

By ARCH W. ANDERSON
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No Rule of Thumb Method Provides a Satisfactory Substitute for Thinking Through Local Problem and Its General Aspects in Determining a Bank Investment Policy. Neglect to Proceed by Intelligent Plan May Mean Following Plausible Impulse.

A DISCUSSION of an investment policy frequently divides the investment account into, first, a reserve of quickly convertible or short-time high grade securities, and second, a reserve of more or less permanent investments, a degree further removed as to liquidity or maturity. For the purpose of this discussion, the point may be better made by considering all of the investment account as temporary in character and as necessary for secondary reserve purposes—secondary to cash and bank balances and intermediate between them and the loans of the bank.

The cash assets are intended to meet the immediate demands on a bank and the local loans to provide an income out of the intelligent use of the funds in extending credit to worthy customers. It should follow, therefore, that the investment account occupies an intermediate position as to liquidity and use, providing first a safeguard against quick demands which exceed or deplete the cash assets, and second, an income in excess of the normal interest on bank balances.

Where Trouble Starts

TROUBLE usually arises when the banker fails to recognize that the intermediate position as to liquidity naturally brings about an intermediate position as to yield. He expects something more than interest on bank balances, certainly, and is disappointed when frequently he obtains something less than current return on loans.

There are many banks, of course, where the investment account is a matter of continuous and current operation and have a competent individual or set of individuals who can devote a sufficient amount of undivided attention to the task to do a good and intelligent job. They have to deal not only with temporary excess funds, but with more or less permanent accumulations that do not find a ready outlet otherwise. They, therefore, cover a wider field of investment activity, especially as to maturities, and are frequently able to produce a good profit from their operations because of the funds at their disposal to go into the market when it is sluggish and buy good securities that have a normally wide marketability.

Because funds are more or less continuously available they have no immediate early necessity to dispose of such securities. By timing their securities to meet their normal needs and setting up a system of investment that provides a gradual run off of their short and long time securities, they replenish currently their funds for re-investment. This replenishment provides an additional safeguard in that the new money coming in for re-investment may be used to meet abnormal requirements in case of need. The experience of those banks and the bankers who are charged with this responsibility is available to other banks where funds are not so continuous and not in such large volume.

Cyclic Fluctuations

THE need for investment frequently arises by reason of a more or less temporary surplus of funds in excess of cash and loans. The circumstances which occasion such surplus vary widely, as does the extent to which and the length of time within which they may be available. A program is needed, certainly, but a program which may be built in each instance to harmonize with local conditions and respond to local requirements.

A study of the history of the bank as to seasonal and cyclic fluctuations is a prerequisite to the investment of such funds; a thorough familiarity with the productive capacity and operating needs of the community is an essential qualification of the man who invests the funds. He must know further whether he is investing deposits which are payable on demand or on time and in what proportions. He must understand whether the accumulation is normal or abnormal, and whether it is occasioned by special funds contributed by a few people or more widely distributed contributions.

The thinking through process that covers all such conditions will determine how much there is to invest and for how long a time and, therefore, will control maturities and to a large extent the character of the investment. The beginning of the investment policy is the knowing of what funds we have to invest and where we got them from, and how long we can keep them. The funds that we have to invest are left with us by our depositors who may demand them. The legitimate requirements of other worthy depositors for loans may require them. The economic conditions in the particular locality will determine to a large extent when such funds may have to meet deposit decline or reasonable demand.

Thinking Through Called For

THE next step is for the banker to buy the securities rather than have them sold to him, which calls for a thinking through process in a wider field. He must have general information as well as local, and must be familiar with the various forms of securities which are available and what supports them and assures sufficient liquidity or conversion value to meet his known requirements.

I have known bankers to say that a country banker in a small community should not be expected to be informed on these subjects and, therefore, should lean on his correspondents or an investment house to guide his decisions. I believe that it is wise and proper when a banker's investment requirements are so limited as not to require continuous consideration, that he should avail himself of the benefit of all the advice and suggestions and help he can get from good correspondents or high class investment houses, but I think that the responsibility for the investment rests with him.

In my opinion it is almost as important that a banker know how to make an investment as to know how to make a loan or take in a deposit. It is a part of the banking business—a part, it is true, which is more emphasized in larger banks or sections where investment funds are more or less continuous; but nevertheless a part. A good banker will obtain all the information and help that he can from other sources, including text and reference books, and will benefit in every possible way by the experience of his friends who have had the same problems to meet, but he cannot escape the responsibility of exercising judgment in behalf of his depositors and his stockholders.

Stability Versus Income

AS distinguished from intelligent planning, a very noticeable impulse on the part of some bankers who have not thought through on the fundamentals of safety and liquidity in the things that they buy, is to get as large a yield as possible. We find bankers who either

through lack of understanding, mental sluggishness, or greed, undertake to controvert the generally accepted economic fact that the yield has a distinct relation to ready convertibility or the soundness of the investment. Where we find bankers considering yield as of primary importance, we frequently find ultimate and unnecessary loss in realizing on the investment itself.

Last year at the Philadelphia meeting of the American Bankers' Association the Honorable J. W. McIntosh, then Comptroller of the Currency, delivered an address on "Handling Institutional Investment Accounts." This address was widely circulated by banks and investment houses and provided much valuable information. Among other things he said that unsound securities, no matter how high the yield which they give, are far more likely to produce losses than profits. Even though one may satisfy himself as to the ultimate recovery on the principal sum involved, he has yet to consider the assurance that the funds will be available when needed and the question of "stability of income versus size of coupon."

Almost Fifty-Fifty

WHERE shall we look for a field of investment that provides the necessary safety and liquidity and a fair income? The distribution of all assets of all national banks, as of June 30, 1928, shows that loans and discounts absorbed 53 per cent of their total available funds; that cash and exchange accounted for almost 17 per cent. The next largest single item was government securities at 10 per cent, as compared with a total for all other bonds and securities of 15 per cent. This accounts for 95 per cent in approximate percentages of total resources in four classifications.

As a matter of interest, the remaining 5 per cent was classified almost fifty-fifty under the respective captions "banking premises, etc.", and "miscellaneous." These averages, like all averages, are merely figures to check by, but no guide to performance in individual cases. The loans when sub-divided showed demand loans secured by collateral constituted 17 per cent of the loans and discount account, and time loans in the same category 16½ per cent, a total of say one-third of the loans, or of approximately one-sixth of the total assets.

I should like to see these same figures projected down to date, but after all they are just figures whereas an investment policy is necessarily based first on local facts. They may help us to reach this general conclusion that investment funds are found in one or both of the two general classifications, loans and bonds. If in loans, perhaps in four classes—bankers' acceptances, commercial paper, collateral loans and call money. If in bonds, let's say first Governments, and second all others.

Selected With Care

THE bankers' acceptance is a high grade commercial investment safeguarded in every respect, with short maturity, eligible for rediscount with the Federal reserve banks, and having a ready market inside and outside of the Federal reserve banks. Its yield is usually low, but it meets the requirement and responds to the need. As a rule, country banks do not buy bankers' acceptances, and yet an educational movement in Texas has proved that experience and understanding will popularize this high class credit instrument in banks large and small. I refer to the bankers' acceptance particularly, but am not overlooking the fact that the trade acceptance properly set up is a high-class commercial credit instrument. There are frequently available, however, trade acceptances in form only, which in substance represent a delinquent account and are not a desirable reserve investment even though the discount may be attractive.

Commercial paper is still being sold, and when prime names are selected with care, after intelligent inquiry into and a checking of the facts, a means is afforded for short time investment in a self-liquidating instrument having a low loss ratio, which is eligible for rediscount with the Federal reserve banks and provides a fair return. I would not have commercial paper confused with a class of trade paper which is neither eligible, prime nor properly supported, and yet is sometimes purchased by bankers as commercial paper at attractive rates.

Collateral loans, both time and demand, secured by stocks and bonds having a wide and dependable market, are usually referred to in a review of this kind. Bankers who are familiar with this class of paper require good names as well as good collateral, and quite a substantial margin of security where market fluctuations have been unusual. This form of investment is not eligible for rediscount, but is presumed to be liquid and to command a good return. In this day of large investments in stocks, the pressure for loans of this character has resulted in bankers being especially cautious to avoid an over loading of presumably liquid, but really carrying loans representing speculative investments. Loans of the same general appearance and character as here described are found at times to constitute investment on the part of bankers who have not been discriminating as to tests and have, therefore, defeated their purpose by providing an asset not quickly responsive to unexpected need.

In Increasing Measure

CALL money offers an avenue of temporary investment to many banks, as a part of a wise and careful distribution of their short time funds against an early need. In the normal past the rate has been low, but in the recent past it has been rather continuously strong, and over a period of time may develop a new normal yield. At times we run across a so-called demand, or "call money investment which is based upon collateral of a slow moving or poor market class in support of notes of second rate distributors, who pay a more substantial rate to the banker who does not make nice distinctions when investing temporary funds.

In national banks at large there follows closely upon cash and exchange a substantial investment in government issues. Here is a security which is undoubtedly safe and doubly liquid. It is available in support of member bank loans with Federal reserve banks and it has a quick and ready market. It may also be used to secure government deposits and in some cases other public funds. The yield is low and is related to the safety and liquidity of the investment.

This leads us up to bonds other than governments, which is in reality a subject by itself. It divides itself into the consideration of municipals, rails, utilities, industrials, corporations, foreign governments, other foreign bonds, etc. It necessitates the understanding of the terms general mortgage, first mortgage, first and refunding, debentures, gold bonds, etc. The investor is required to know the significance of these terms in determining what he may look to in support of the bond. One could discourse at much length, because there is no general comment which properly classifies bonds as an investment for national banks. It is my opinion that, in increasing measure, bankers will buy bonds with investment funds, due to the fact that the trend of present conditions seems to provide less demand for commercial loans and an increasing amount of more or less permanent investment funds.

Out of Undivided Profits

I SHALL not undertake to submit a treatise on the various phases of the subject of investment in bonds and the nice distinctions that one familiar with the subject would make. I may point out perhaps some of the considerations that enter into an investment policy as it relates to bonds.

A banker should know something of the relative value of the different classes of bonds and understand the significance of the forms of expression that are used to indicate the several types. The permanency of the funds must be considered in determining maturities. The possible need for conversion of the investment before maturity makes it necessary to keep in mind the availability at all times of a good market. I would caution the investing banker to understand what constitutes marketability in the opinion of the national bank examiner who tests his bond investments as to their qualifications under the requirements of the Comptroller of the Currency.

It should not be forgotten that in recent times depreciation in investments of this character has sometimes had to be absorbed by banks out of undivided profits. I would call attention to the fact that securities of this character may form a basis for temporary loans with correspondents, but are not eligible collateral with Federal reserve banks, and are not otherwise liquid except through

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A Way Out for National Banks

By GEORGE H. HAMILTON
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Conditions Called a Real Menace to National Banking System Reviewed. Legislation to Strengthen the Law so there would be No Question of Right to Succession to Trust Business by Merger Considered Means of Removing the Greatest Handicap.

BANKING in the United States is in the midst of an era of sweeping changes. The banker at the cross roads is no longer isolated and dependent upon his own ingenuity and resources for the management of the financial affairs of the community. Owing to the rapid transmission of merchandise, passengers and thoughts, the cross roads is close to main street and not very far removed from Wall Street.

The development of new principles of bank management is the theme of every meeting of state bankers associations and the building of secondary reserves and the diversification of assets is a matter for thought of every bank manager. Bank taxation is being discussed from one end of the land to the other and the provincial attitude of the local czar of finance has almost entirely disappeared. Nearly every week he is visited by representatives of larger banks and his best customers are transacting business direct with his city correspondents.

Underlying the whole banking structure is a spirit of unease and seldom do two or more bankers get together without discussion arising concerning the future prospects of the banking business. Service charges, county clearing houses, trust departments, investment departments and the inroads of group banks are live topics. Financial news is so widely disseminated that no longer are the happenings in New York, Chicago or San Francisco's financial circles the mysterious bugaboos they once were.

Not Ready

"I FOR one am not ready to admit that bankers are favorable to or ready for Federal Reserve District branch banking or nation-wide branch banking, and anything short of these would not be a remedy for the conditions which confront the national system today. Neither do I believe that public opinion would, at the present time or for many years to come, tolerate the centralizing of financial control in a few great banks with nation-wide branches."

Oldest and Proudest

THE changes that are occurring at the cross roads are as nothing compared with the changes in the large financial centers. Keeping pace with the consolidation of railroads, public utilities and other commercial and industrial enterprises, finance has concentrated through mergers in figures that stagger the mind. Some 256 of the country's largest banks handle over one-third of the nation's deposits, or putting it another way, less than one per cent of the banks of the country control over 33⅓ per cent of the total deposits. As a result of this concentration of capital and control, banking ideas are changing and even banking systems are undergoing transformation. Nowhere is this more apparent than in the national banking system. In 1884 the aggregate resources of the national banks of this country were 75 per cent of the total commercial banking resources. In 1926 that proportion had dropped to 46 per cent and today it is less than 40 per cent.

No longer do national banks lead in resources in New York, Chicago, St. Louis, Detroit, Cleveland and several other cities. In a brief period just prior to the passage of the McFadden Bill, national bank resources shrank and state banks gained in excess of $2,225,000,000. The McFadden act for a time stopped the flow of this tide, but apparently it was only temporary, for during the present year, national banks with resources of approximately $3,000,000,000 have surrendered their charters. While this enormous loss to the national banking system was largely caused by the merger of some of the oldest and proudest names in the national bank directory, yet the defection is not limited to the largest cities. There has recently been formed a group of banks in one of the southern states wherein seven national banks changed to state charter, and hardly a day passes that the newspapers do not record a similar change somewhere in the United States.

Paralyzed Their Efforts

THERE are several contributing causes to this defection. State courts have rendered decisions, later confirmed by the United States Supreme Court, each of which, though not intentionally, has been a direct slap at the national banking system. In Massachusetts, in the Macallen case, the court decided that an excise tax measured by income was unconstitutional where part of the income used as a measuring stick was the income from tax exempt bonds. Throughout the whole country, national bankers and their brothers in the state banks have been urging their state legislatures to pass a law taxing the banks on a reasonable excise basis, in order to escape the unjust and burdensome taxes that have been heaped upon their banks in the past.

The decision in the Macallen case has paralyzed their efforts and has resulted in an intolerable tax situation in many of our states. The odium for this situation and for the overthrow of some of the old taxing systems has fallen on the national banks, and Section 5219 is as familiar to many tax commissioners as their own telephone numbers.

In Massachusetts, again, in the Worcester County National Bank case, the court decided that in the event of the merger of a trust company with a national bank under a national charter, the national bank could not succeed to the trust business of the state bank without qualifying under the state law, separately, with respect to each trust. This was indeed a body blow to national banks, for the Massachusetts courts have repeatedly upheld the right of one trust company to succeed to the business of another. Added to the uncertainty as to whether a national bank might succeed to the trust business of a state bank, where the latter merged under national charter, the fact that broader powers exist under trust company charters in many states is another reason influencing national banks to surrender their charters in the case of merger.

The conditions which have influenced the directors in the big mergers, wherein national banks have surrendered their charters, are numerous and varied and were probably different in each of

them. Stockholders in banks are no different from stockholders in any other corporations. The investment of their money in national bank stock or trust company stock is not a matter of sentiment nor is it done with any eleemosynary intent, but is merely with the idea of a safe investment and the hope of adequate returns, and the charter offering the best opportunity for profit will receive their vote.

In many states where mergers have occurred, trust company laws are more liberal and the powers granted are much broader than under the laws governing national banks. The latter, until recent years, having confined the national banks almost exclusively to commercial banking, having deprived these institutions of the ability to make money which trust companies have enjoyed.

As a result, over a period of years trust companies have built up an enormous fiduciary business and the returns on invested capital have been much greater than in commercial banking. They have equipped themselves with the personnel to handle this very technical type of business and have gained the goodwill of a host of influential and valuable customers. Rather than scrap all the machinery built up to handle this business and operate it as a mere department of some national bank, it is evident that stockholders prefer to continue under a state charter, more especially as by taking membership in the Federal Reserve System, the field of commercial banking is as open to them as it is to national banks.

Two Chief Reasons

THERE is a considerable item of expense involved. A large trust company, acting as transfer agent, registrar and in innumerable other fiduciary capacities, would in the change of its name or even in adopting a hyphenated name, be put to an enormous expense in overprinting and otherwise changing the name on documents which have been issued by it. I am told that in one of the large mergers this item of expense alone would have amounted to somewhere between $600,000 and $1,000,000.

In some mergers the trust company, having been in business for many, many years, was operating under a charter more liberal in its terms not only than a national bank charter but also more liberal than could now be obtained under a state charter.

Business generally has grown in volume throughout the country and concentration of financing and control in all lines of trade and industry makes it necessary that larger financial units be formed to take care of the growing financial needs. Added to this, the position that the United States finds itself in as a leader in world trade requires larger units and groups in banking to finance this trade. These reasons have undoubtedly had a bearing on the concentration of financial strength through mergers, and it is evident that this growth and concentration will continue.

I would say, therefore, that the two chief reasons in these mergers which have induced national banks to surrender their charters, that are common to all of them are first: a distinct advantage from an operating standpoint and, to a lesser extent, the probability of increased profits under a state charter; and, second, the uncertainty which prevails with reference to the merging of trust and fiduciary relationships under a national bank charter because of the adverse decision of the Supreme Court in the Worcester County National Bank case.

Can It Survive?

OF course, to offset the opinion that a trust company charter is more attractive than a national bank charter, we have the recent merger of two large national banks under a national charter, and we have the merger of a very large national bank and a trust company, wherein each of the units will be operated under its respective charter, though ownership of stock is in common.

Nevertheless the advantages seem to be with the trust company charter, more particularly in the face of the menace of the Supreme Court decision in the Worcester County National Bank case. It is, therefore, fair to suppose, and it is predicted by students of the situation, that as mergers occur in the future, the tendency will be all in favor of state charters as the expense of the national banking system. What does this condition spell? What does it mean to those who are engaged in the national banking business? Does it mean, as a conspicuous and well-informed state banker has prophesied in public utterance, that the creation of the Federal Reserve System, although an instrumentality of the Federal government, has spelled the doom of the national banking system? Is it to be believed, as he does, that because membership of the larger state banks in the Federal Reserve System gives them as wide a scope in the conduct of commercial banking and interstate banking as is enjoyed by national banks, that there is no advantage in a national charter and that ultimately trust companies and state banks will handle all the business? If he is correct in his prediction, is it to be felt that the future of the Federal Reserve System will be assured, dependent as it will be wholly upon voluntary membership?

Is it to be supposed that if all national banks surrendered their charters, each bank being a compulsory member of the Federal Reserve System, that this great system could survive, dependent as it would be solely upon the voluntary membership of state-chartered banks? Figures and history prove otherwise. State banks, at the present time and for years, have enjoyed the privilege of becoming voluntary members in the Federal Reserve System and to what extent have they indulged in this privilege, if it is such?

Sold for a Paltry Sum

IN 1922, as a result probably of the pressure put upon state banks during war times and immediately thereafter, state bank membership reached its peak when a total of 1639 banks or 17.6 per cent of the eligible banks were members of the system. Of this number a very large percentage are located in the larger cities where competition and the necessity for interstate business were prime factors in influencing their action. On September 1, last, 1168 state banks belonged to the system or somewhere between 10 per cent and 11 per cent of the eligible banks. If voluntary membership is sufficient and the same percentage of national banks, as they exist today, belonged to the system as there are of state banks, the influence of the Federal Reserve System would not be far reaching and its policies and control would be under the direction of the large banks in the large cities.

We do not need to go farther afield than to study the history of our own country to learn how much dependence may be placed upon voluntary cooperation. Had there been a national banking system during the Revolutionary War, our histories would not have recorded the rigors of Valley Forge or the desertions of the unpaid, underfed soldiers of Washington's army. Had Congress renewed the charter of the United States Bank prior to the War of 1812, it would not have been necessary for the government to finance that war, to have sold to voluntary subscribers $80,000,000 of government obligations for the paltry sum of $34,000,000. Had the national banking system not been formed during the Civil War and had it not been in operation at its close, the revival of business and commerce would have been retarded for many years to come.

Subject to Whims

CONTRAST with these the results during and after the last and greatest of all wars when, through the national banking system and Federal Reserve System our finances were mobilized and we emerged from this chaos the creditor nation of the world, established for all time as the leader in finance and commerce.

It does not seem possible that the Federal government will stand idly by and watch the disintegration of the national banking system to its ultimate elimination without making some heroic effort to prevent this catastrophe. In view of past experiences, the government could not afford to witness the elimination of the national banking system, leaving as that would, only one financial instrumentality over which the government has control—namely the Federal reserve banks and leaving to chance or the voluntary support of state banks the perpetuation of that system.

It is not reasonable to believe that the government would be willing to depend on this arrangement for the Federal reserve banks, the latter having only supervisory authority over a few of the larger state banks in the larger cities with the rank and file of the banks scattered throughout the country being non-members. This would result in forty-eight distinct banking systems

throughout the country, subject to the whims of forty-eight legislatures and with as many different kinds of regulation and control through local bank commissioners. In times of stress it is inevitable that there would be conflict of authority and conflict of policy between the Federal government, as represented through the Federal reserve banks, and the state bank authorities. Voluntary membership in the Federal Reserve System would undoubtedly prove inadequate to maintain that system at anything like its present standard and the Federal government would eventually find itself in the same position that it faced prior to the Revolution and the War of 1812.

Stemmed the Tide

MANY remedies have been suggested to curb this trend of national banks to desert the ranks of the national banking system. Conditions as they are today are somewhat different from those that prevailed in the past. The change in commercial banking trend which has led to the dilemma confronting the national banks is of somewhat recent origin and will not require the same remedies for its correction as did those changes of policy in the past.

The position of the national banks of the country was so well established and so well assured that such changes as have been made in national banking laws were made for the purpose of placing national banks on an equal footing or thereabouts with those operating under state charter. Since the passage of the McFadden Bill there has not been a great deal of difference between the powers enjoyed by national banks and those under which a state bank operates. In spite of that near equality and whether or not it is because of the liberal policies of the Federal reserve banks toward state chartered institutions, or whether it is because of the fear of state legislation, and court decisions favoring state banks over national banks, the fact remains that the drift is from national to state charters.

To maintain the national banking system at its present high standard and to increase its power and usefulness throughout the country, it will be necessary to enact legislation granting national banks privileges which would make a national charter so attractive that not only would the desertions from the ranks cease but new recruits be added from every side. You cannot sell merchandise by offering something almost as good. That is the reason that the increased powers granted to national banks in the McFadden Bill fell short of their purpose. This act stemmed the tide temporarily but after it had been in operation for a time it was found that the advantages gained did not measure up with those already existing under trust company charter and the tide flows on apace.

One of the first and most discussed remedies suggested by many bankers and even by men in high authority in Washington, is the granting of the privilege to national banks of operating branches, not only in the city where the parent bank is located but farther afield. Some would limit the branches to the boundary of the county; others would make them state-wide and the limits of the Federal Reserve District is the goal of others. Those who would save the system at any cost would make it nation-wide. I do not propose to enter into the discussion of branch or group banking as compared with unit banking, other than as this proposed remedy has a bearing on the subject I have under discussion.

Let us suppose that Congress in its wisdom grants to national banks the privilege of operating branches in the state where the parent bank is located. This undoubtedly would create an immediate advantage to those operating under a national charter. This, however, would be but temporary for who can doubt that this advantage, in most states, would be limited only to the time necessary to convene the legislature and grant the same privilege to state banks. In fact in many states it would probably result in the calling of a special session and the legislature, declaring that an emergency existed, would put into immediate operation the machinery enabling the state banks to operate state-wide branches. Should Congress decide that the limits within which national banks could establish branches would be the boundary of the Federal Reserve District, this would indeed give a more lasting advantage to national charters and an increased advantage would be given to national banks should no limit be put on the territory where branches might be operated.

There is no doubt that Federal Reserve District branch banking and more especially nation-wide branch banking, would save the national banking system but there is grave doubt in the minds of most people if it would save the national banker. Even though nation-wide branch banking were permitted it would not entirely eliminate active and strong competition, for you may be sure that it would be immediately followed by nation-wide groups or chains of state banks and trust companies. As evidence that this competition would be immediate, I can point to a powerful group in the northwest, which has not only overstepped the boundaries into several states but reaches into other Federal reserve districts.

Financial Feudalism

THE advantage in economy of operation and concentration of control would, however, be with the branch banking system and such a system would, beyond question, insure for all time the perpetuation of the national banking system. I for one am not ready to admit that bankers are favorable to or ready for Federal Reserve District branch banking or nation-wide branch banking, and anything short of these would not be a remedy for the conditions which confront the national system today. Neither do I believe that public opinion would, at the present time or for many years to come, tolerate the centralizing of financial control in a few great banks with nation-wide branches.

Though in all kinds of commerce, industry and trade the pendulum is swinging toward concentration of effort and centralized control of larger units, who can say that it will not at some early day swing in the opposite direction and that this tendency toward monopoly be sharply curbed. Financial feudalism may become as abhorrent to the individual mind as personal vassalage is and the deadline may be set beyond which expansion and centralization may not go.

Anything short of Federal Reserve District or nation-wide branch banking would not overcome competition for any appreciable time, nor would it relieve us of the menace of the Worcester County National Bank decision.

Other remedies have been suggested, varying somewhat according to the degree of alarm that has been created in the minds of the proponent. When any of these remedies are mentioned, it should be borne in mind that it required nearly fifty years to induce Congress to make rather moderate changes in the national banking laws, and it is probable that suggested changes that are too radical would be given little consideration by our Federal law makers.

Would Be a Godsend

IT has been proposed by a good friend of mine in a neighboring state, and the same idea is suggested by a member of Congress ranking very high in his influence with that body, that national banks should be relieved of all taxation by the states. This, of course, would be of tremendous advantage to national banks, but I would hate to be running a national bank in a community where we paid no taxes. There is no reason that I can think of why national banks, operating in any community, should not bear their just burden of the expenses of government, but I do think that Congress might further safeguard national banks by placing a reasonable limit to which taxing authorities could go.

Section 5219 as it now stands is a fairly adequate safeguard but assaults are being made on it by a well-organized and well-financed group of state banking authorities which will require our best efforts to defeat. There are many small communities throughout the Middle West where the local bank, whether state or national, has been assessed and has paid as high as one-eighth of the taxes collected in that community. Banks are required to pay in many states as high as 50 per cent of their net income for state and local taxes, and the percentage has run up, to my knowledge, in one instance at least, as high as 138 per cent of net income. Section 5219 should, therefore, by all means be preserved intact, not only on account of national banks but as a safeguard to all unit banks within each state and could it be strengthened

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A Ring in a Tree

WE give a lot of attention to passing events and often attach undue importance to them.

We are prone to regard things that are only on the way as culminations—as objectives attained.

In the Golden Gate Park, San Francisco, in the Museum of Natural History, New York, and no doubt in many other places there are to be seen cross-sections of the giant trees of California.

The rings of the trunk indicate the age of the tree; its size and age at various memorable dates in history are readily ascertainable.

Thus the oldest of these had thrown their branches aloft when the Christian era began. They had centuries back of them when the Liberty Bell proclaimed the Declaration of Independence.

A solemn thing upon which to reflect is that in the course of its life even nations grew, languished, died.

And as a matter of course many a man, strong and proud, in his day, perhaps feared by many and loved by a few, had his little earthly playspell of pomp and power, returned to the dust from whence he came, and there is not on earth today as much to mark his coming or his going as one of the curious rings in the cross-section of the old tree.

No wonder that the philosopher fancies Nature saying to an individual wrought up over some mooted matter of Emerson's time, "Why so hot, little man!"

It is obviously true that patient resignation before every serious obstacle, or a philosophical opiate to kill the pain of every defeat, are not the things by which individuals or nations make progress. Equally true is it that there is much bustling, fretting, frothing and straining that is all in vain.

Just as great products of the earth are produced in silence by the quiet, orderly processes of Nature with neither hurrying nor helloing, so often the silent man, modestly wending his way through the crowd, or in the seclusion of a humble home, quietly thinking out a single problem, is making real progress.

THAT, then, is the hope of the plodder and the grind—in the bank and elsewhere—who sometimes mistaking in others mere show and ostentation for actual achievement may chide himself for lack of progress.

Yet, after all is done, the latter's work may be counted as a ring in a big tree and, in some form, live after him.

The great Napoleon said that Robert Fulton was a charlatan.

But whose work contributed most to the happiness of mankind?

James E. Clark

The Trust Company Division

Record Year in Trust Activity and Prospects of Inestimable Expansion Reported at Annual Meeting of Division. Change in Public Opinion Favorable Factor. Business Insurance Trust Believed Important to Future Business of the Smaller Banks.

OWING to the illness of President Arthur V. Morton, the meeting of the Trust Company Division on Monday afternoon, September 30, was called to order by the Vice-President of the Division, John C. Mechem, vice-president of the First Trust and Savings Bank of Chicago.

The annual address of the President, which described the remarkable growth of trust activities all over the country, was read to the Division by Vice-President Mechem. Mr. Morton's address follows, in part:

Trust Field Growth

"WE are in a period of impressive growth in the trust field. There is every indication that 1929 will go down in the annuals of corporate fiduciary service as a record-breaking year, both in the volume of accumulated wealth entrusted for conservation and in the number of Americans who have named trust companies and trust departments of banks in their wills to settle their estates. It is estimated that more than $1,000,000,000 in life insurance will be brought within the protection of trust agreements during the year 1930. A greater proportion of estates will be settled by banks and trust companies this year than ever before. There can be little doubt but that the day of the individual trustee is waning and that the trust idea is taking hold more firmly then ever.

"Certainly it is true that there was never a time when such a large number of banks and trust companies were engaged in performing various kinds of trust service. The first national survey to determine the exact scope and character of trust work in the United States has just been completed by the Trust Company Division of the American Bankers Association. This revealed that there were more than 3200 active trust departments in this country and that there are now more than 3000 trust officers and executives who are devoting their full time to the development and administration of trust business in the United States.

"Out of 2979 institutions reporting the year in which their trust department was established, only 165 were in operation before the dawn of the present century.

"During the first decade a total of 342 trust departments were opened.

"The next ten years witnessed the addition of 665 trust departments. It was during this period that national banks entered the trust field.

John C. Mechem,
Vice-President, First Union Trust & Savings Bank, Chicago. Incoming President, Trust Company Division, American Bankers Association

Newcomers in the Business

"But the greatest increase has come since 1920. In less than nine years, 1807 new trust departments have been established and have started to serve their communities in what has been declared to be 'the most exalted relationship created by law.' Quite naturally, these newcomers in the trust business have turned to the Trust Company Division and to the experienced institutions engaged in this service for assistance and guidance.

"How responsive the Trust Company Division has been to the needs created by the amazing growth of trust service may be indicated by giving the highlights of some of its activities and accomplishments during the past year.

Four large trust conferences have been held—one in each section of the country. These conferences, first adopted in organized banking by the Division as a means of extending knowledge of approved methods of acquiring and handling trust business, have proved to be of great practical value. They have brought to trust officers everywhere a knowledge of new types of trust service and information as to how they may solve their knotty problems. More than one hundred different speakers have addressed these conferences, which were attended by a total of more than 1700 trust men. The combined sessions of these regional trust conferences in themselves would provide a course of ten days of instruction in fiduciary practice.

"The Tenth Mid-Winter Trust Conference, held in New York in February, set a new high record in attendance and attracted trust men from thirty-three different states and two foreign countries. More than 400 banking institutions were represented at this single conference. Now regarded as the senior banking function of the country, the eighteenth annual banquet of the trust companies of the United States, held in conjunction with the conference, attracted more than 1500 bankers, financiers, and industrial leaders from all parts of the United States.

Life Insurance Trust

PERHAPS the most spectacular phase of the trust business has been the growth of the life insurance trust. It is estimated that more than $2,000,000,000 in life insurance is now protected by trust agreements. The busi-

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Trust Service an Essential of Modern Banking

By JAMES A. BACIGALUPI
President, Bank of Italy National Trust and Savings Association, San Francisco

Immense Resources Await Trust Company Management in United States. One Big Opportunity of Banks for Further Profitable Development and of Public Benefaction Seen in Field of Trust Service. Practically Unlimited Bank Profits are Possible.

THE outstanding and unmistakable impression that even the most casual observer receives today when contemplating the ever broadening opportunities for genuine and helpful corporate trust service to the public, is that of marvelous growth.

A nation-wide survey conducted by the Trust Company Division of the American Bankers Association has disclosed the fact that there are today approximately 3,500 qualified trust departments of banks in this country as against only fourteen in 1870; that the majority of the trust companies or active trust departments of banks in this country in operation today have been established since 1915; that over 20,000 officers and employees of banks in the United States are today devoting their full time to the handling of trust work, and that fully 45,000 Americans chose a corporate executor or trustee during the past year alone.

A Remarkable Showing

FROM the recent report of the Comptroller of the Currency, in which trust findings from the bank call of June 29, 1929, are summarized, the following significant figures appear:

There are today in operation in the United States 1,734 trust departments of national banks alone, managing 75,988 individual trusts representing assets in excess of \$5,237,000,000—a gain of 359 per cent in such assets and of 191 per cent in the number of such trusts since 1926. The assets under corporate trusteeships in national banks aggregate more than \$7,370,000,000—a gain of approximately 200 per cent over similar assets in 1926. This is indeed a remarkable showing, particularly when cognizance is taken of the fact that until the comparatively recent enactment of the Federal Reserve Act, national banks were not permitted to exercise trust powers.

In a recent address, Joseph S. McCoy, the United States Government Actuary, revealed the significant fact that approximately 400,000 estates, representing assets of over \$5,000,000,000 are now probated annually, and that about 60 per cent of this vast sum, or over \$3,000,000,000 for the year ending December 31, 1927, belonged to estates administered in only five States of the Union, namely: New York, Pennsylvania, Illinois, Massachusetts and California.

Statistics recently released in the States of Massachusetts and Pennsylvania—the only two states in the Union which publish consolidated statements of trust funds held in all trust companies or trust departments of banks, both state and national—show that the total trust funds administered by banks in the State of Massachusetts in 1900 amounted to about \$14,000,000, and that in 1929 this volume has grown to the imposing figure of \$600,000,000; while in the State of Pennsylvania the total trust funds held in all banks in 1900 approximated \$500,000,000, and that in 1929 this volume has increased to the staggering figure of more than \$4,000,000,000.

Like a Great Giant

LET me conclude these citations with a passing reference to just one type of corporate fiduciary service which has only lately sprung into being, but which promises, if intelligently and diligently cultivated, almost unlimited possibilities —I allude to the life insurance trust.

Life insurance, like a great giant that has but lately found his stride, increasing by leaps and bounds because of the realization that insurance of human lives must be viewed as to its objects in terms of income rather than of principal, now looks to the corporate fiduciary as the complementary medium for the complete fruition of its purpose, because life insurance without a concomitant conservation plan—so that the beneficiaries may be the better protected and their comforts and independence the better assured—fails of its essential destiny.

It is of immense significance, therefore, that in the United States today there are in force nearly \$100,000,000,000 of life insurance; that this is now increasing at the rate of \$10,000,000,000 a year, and that life insurance companies, during 1928; paid out in cash total claims calculated to be in excess of \$700,000,000. It is estimated that of this huge sum of life insurance in force today, only \$2,000,000,000 or 2 per cent of it has as yet been lodged with American trust companies under agreements of trust; yet more than \$500,000,000 so held or in excess of 25 per cent of this total was trusteed during the past year alone.

Phenomenal Popularity

IMPRESSIVE as these figures are they do not begin to reflect the true measure of the immense resources awaiting trust company management in America.

At this juncture, however, it behooves us to pause a moment to seek and to firmly establish in our minds the real reasons for this recent phenomenal popularity, throughout the country, of corporate trust service.

In the first place, the wealth of the American people has grown apace, during the past fifteen years, with the ever increasing prosperity of this great country. This unprecedented rapid enrichment of so large and widely scattered a proportion of the people—theretofore almost total strangers to the intricate science of safe investment, conservation and transmission of so much newly acquired wealth—rendered it not only advisable but most necessary that they should seek the guidance and the cooperation of some trusted, wiser and better qualified friend or acquaintance.

Stands Paramount

IN the second place, be it said to the enduring credit of the banks engaged in the field of fiduciary service, the American people have been gradually, and are now being more rapidly, led to understand and to appreciate the overwhelming superiority of corporate trust service. People are coming more and more to realize that whether the qualified bank act as custodian of securities; or as escrow-holder; or as the executor or trustee under the will of a decedent; or administrator of his estate; or guardian of the estate of a minor or incompetent; or trustee of a living trust with all the wide ramifications of custody and investment management that modern finance implies; or trustee under corporate hypothecations for the protection of bondholders; or registrar of stock to safe-

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Business Insurance Trusts

By HILLSMAN TAYLOR
President, Missouri State Life Insurance Company, St. Louis

Benefits of Business Life Insurance Described as Affecting Small Enterprises as Well as Corporations and Partnerships. Life Insurance Trusts Considered the Necessary Adjuncts of Policies and Viewed to Be the Nature of Essential Reserves.

THE subject of "business insurance trusts" may be divided into two heads, business insurance and trusts. They will be discussed separately and then jointly.

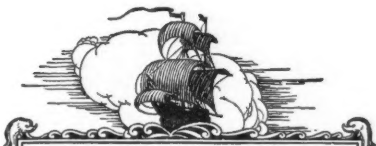
Insurance sold for the purpose of protecting one's business interest is called "business insurance." It is also often referred to as corporation or partnership insurance. This, however, is not a broad definition because business insurance protects any firm, be it conducted by a corporation, partnership, or individual.

Business insurance selling differs from the selling of personal insurance in that in the first case you are appealing almost entirely to reason, that is, good business sense and judgment. In the latter, the appeal is often largely made to the heart—to a man's love for those most dear to him.

Corporation Hazards

A GREAT many life insurance salesmen and trust companies have made the mistake of neglecting the small corporation or partnership. It is estimated by Bradstreet that about 90 per cent of business failures in the country are among firms having less than $20,000 working capital. This is easy to see when you take into consideration that the large firm has the financial means to develop understudies, hoping through this medium to materially offset the loss of an executive. The small firm, due to its limited finances, is unable to make any such preparation. The untimely death of a valuable man often threatens a concern's very existence. Many adjustments must be made. Some of the hazards that a corporation may be forced to mount are readily discernible.

Quite frequently it is necessary to make a stock readjustment with the heirs of the deceased member of the firm. The surviving stockholders may not wish the heirs to have any voice in the firm's operation. A controversy may arise as to the final disposition of the stock, and as a result some outside interest may purchase the deceased's interest, which, of course, may cause friction. This has happened in many instances. Thus life insurance when used for the purchase of the deceased member's stock serves a double purpose. It guarantees control of the corporation to the surviving stockholders and it transforms the estate of the deceased into a liquid asset, thereby protecting both the interests of the living and dead. This especially applies to small corporations where there is no ready market for the stock. These closed corporations are virtually limited partnerships and the survivor owes it to himself to see that he is protected in his business, as well as to see that the representatives of the deceased are paid a fair and commensurate value for the interest in the business.



A New Realm

REPLACEMENT value is the basis of all insurance — life, fire and casualty. But money alone cannot replace brains and personality and the nearest approach to the replacement of human value is a life insurance trust executed by a capable and efficient trust company. The manner of making these trusts is herein described. Also it is pointed out that there is no greater realm for investment at present in the trust business than that afforded by corporations.

The death of an executive may disturb some expansion program, so the firm needs to capitalize the brains of management just as all other assets are protected. Life insurance payable to the corporation will protect creditors as well as stockholders. Bond and note issues can be guaranteed by life insurance on the life of a key man.

Duties to Be Performed

IT happens very often that the company has a contract or contracts where the profit is entirely or largely dependent upon the personal efforts of the executive or executives. The death of one may shake the faith of bankers or business people generally in the strength of the corporation but if this business ability is fully protected by insurance, the death substitutes financial power for executive power. No medium sized company can afford to enter upon a period of expansion without due preparations having first been made and the most important of these is adequate insurance.

In the case of a partnership, the death of one of the partners immediately dissolves the partnership. It cannot be otherwise unless the partners themselves provide for the continuation of the business in a legal manner. Each partner having a proportionate interest in the partnership assets, the interests of the dead partner naturally passes to his estate. His heirs are not entitled to the partnership assets, but they are entitled to their share of the assets liquidated by the surviving partner. All partnership assets remain to be administered by the surviving partner. A surviving partner must perform each of the following duties:

1. An immediate inventory and appraisement of the partnership assets and liabilities must be made.
2. As the surviving partner, he is not the owner of any part of the partnership assets. He has the responsibility of liquidating the business, selling the assets for the best price.
3. Any partnership assets sold must be subject to the approval of the Probate Court, executor or heirs of the deceased. The surviving partner has no priority over others.
4. He cannot incur any obligations except those necessary to liquidate.

Partnership life insurance solves the problem. In a great many instances, it is advisable to have an outside party named as trustee in the partnership agreement. This second party should render unbiased decisions and, of course, will see that the articles of agreement are all performed. Under ordinary conditions, the average firm is more interested in ordinary life insurance for business insurance purposes than any other form of contract; the reason being that it purchases maximum protection for the premium outlay and on a permanent basis, thus creating a corporation asset year by year, as shown in the cash values of the contract. Sometimes however, term insurance is used to advantage and also twenty year endowment; the latter form of contract may be used for the purpose of retiring a bond issue.

The *Magazine of Business* has estimated that only 5½ per cent of all

businesses survive over a period of thirty years, and that 45 per cent of all new businesses die within five years. The Federal Trade Commission, a few years ago, estimated that there were 250,000 businesses in the United States. Of these concerns, 190,000 made less than $5,000 of profits; 100,000 of this 190,000 group made no profit at all. In other words, about 76 per cent of all businesses are on the danger line where any unexpected happening might throw them into insolvency.

The small firm needs business insurance most of all. Of all businesses which fail 95 per cent have little or no capital, 90 per cent have less than $5,000 capital.

According to R. G. Dun & Company, 390,000 commercial failures are recorded for the United States in the past twenty-five years. In practically every case, these recorded failures are those which involve loss to creditors. Those where the owners absorbed the loss themselves are not reported. From this, we may gain a fair idea of the hazard of investing money in business or industry and, therefore, more clearly see the need for business life insurance.

Absorbs the Shock

WHEN death removes the owner of an individual business, the executor needs cash, or credit, or both in order to carry on with the business—possession of capital or credit will prevent heavy loss through the forced sale of the business and will enable the executor to carry on until a proper disposition of the business can be arranged. Credit at banks and with wholesalers will be safeguarded.

In a partnership, death automatically dissolves the firm and requires that the affairs of the firm be wound up. Business life insurance where the insurance is on the life of a partner enables the survivor to meet the immediate demands upon the business from creditors and to satisfy major and pressing obligations. Thus he is able to discharge partnership obligations and continue the business as a sole owner or until such time as he may wish to take another partner.

Corporations are becoming more and more liberal users of business life insurance. The usual custom is to insure the key-man or key-men of the corporation—executives and others whose removal by death would bring great loss to the business. Immediately upon the death of such a key-man, life insurance would step in and absorb the financial shock which otherwise might result in ruin or near-bankruptcy. Life insurance may also be used to adjust stock interests in a corporation where members of a family are in control so that when a stockholding official dies, the family control may be continued.

To Do Three Things

BUSINESS life insurance is designed to accomplish three things: To protect against direct financial loss through death; to maintain credit which might be impaired; and to create new credit by establishing immediate confidence in the ability of the business to successfully carry on.

It is a remarkable fact that American life insurance enjoyed nearly a half century of rapid development and progress in its service to mankind before the idea of business insurance took tangible form. But there are a number of reasons to account for this delay in advancing this important branch of the life insurance business.

Business life insurance is simply a special application of the general principle of "indemnity against loss" which is embodied in any real insurance contract. It has, however, become almost a separate branch of the business requiring on the part of the life insurance man a definite knowledge both of business operations and the details of his own contract and company practice.

Safeguards the Reservoirs

THERE are certain very important benefits resulting from business insurance even though the insured officer or proprietor does not die but lives out his normal span of usefulness to the concern. Business insurance safeguards the reservoirs of cash and strengthens the credit of carrying it in the following ways:

By creating a favorable impression upon the banker because of its indication of foresight and caution.

By providing through the loan values of the policies, a separate source of borrowing power when other avenues of credit may be closed.

By furnishing assurance that the policies may be borrowed upon in cases of emergency at reasonable interest rates definitely stated in the policy contract.

This ability to borrow upon the business insurance policies may save the concern from the danger of having to borrow from individuals who are seeking to get control of the company.

The carrying of business insurance inspires the confidence of possible investors who otherwise might be repelled through fear of loss in case of death of "key-men" if not insured. The particular advantages of an emergency surplus created through business life insurance are:

The funds are figured beyond danger of loss because of the guarantee contained in the policy contract, supported by the millions of assets of the insurance company.

Such a reserve is entirely separate from the general assets or working capital of the concern.

It is always available even in times of financial stress.

It is accumulated regularly because of the compulsion exercised through the regular premium notices, etc.

The funds are free from care and require no thought or reinvestment.

Such a reserve is available without publicity and is a concealed asset.

It is constantly increasing without loss to other operation of compound interest and it is available at a guaranteed low rate of interest.

Business insurance inspires in the insured officer himself a sense of loyalty and enthusiasm which he might not otherwise have. The very act of insuring him is in itself definite expression on the part of his organization that they regard him highly. It also inspires loyalty in the junior officers and employees because of their feeling of security and confidence in the continuance of the business, even in the case of the death of this officer.

Loath to Pay Much

THE personality and ability of the proprietor is about the only real asset of the small business. In such business whether owned or operated by an individual proprietor or by a partnership, probably 90 per cent of its success is due to managerial ability or its directing personalities and to the good will built around these personalities. This very fact, however, makes the good will of little or no value when the small business is sold. When this personality is removed from the store, the good will is lost. Purchasers are, therefore, loath to pay much, if anything, for good will which is based entirely upon the personality and presence of the owner. Here, clearly, is a case where business insurance upon the life of such a managing proprietor is imperative.

If such serious results may follow in large enterprises which are highly organized and where understudies are plentiful and credit large, think of the tremendous shock and the risk which smaller concerns run whose physical assets are meager and whose credit is even more dependent upon the reputation and ability of one or two individuals.

Death leaves a vacant helpless office chair. When the brains of a business die, confidence in the concern is shaken —unless business life insurance furnishes cash at this critical time to offset the loss. Profits are made by men—not by machines.

Business insurance cannot do away with incompetence—it cannot change human nature. But it can obviate lack of capital by creating an emergency reserve in its cash and loan values.

The Greatest Incentive

AN insurance trust is a necessary adjunct to every business insurance policy. This is practically axiomatic because of the fact that there must be some agency for carrying out the purpose of the insurance.

It is just as necessary that the insurance trust agreement be drawn by a man capable of understanding the many angles to trusts and the difficulties that may arise under the administration of it. We then start with the assumption that it is necessary to have a properly drawn trust agreement with a capable trust company.

The greatest incentive of the average man is the building of an estate and the establishment of a character. Men very often have an earning power who are never really able to accumulate an estate for the reason that they arrange their expenditures so that they just equal their incomes. This is the type of man that every trust officer should help to create an insurance trust. This is a business insurance trust because it should be a part of the business of every man of that character.

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Protecting the Trustee

By HERMAN PHLEGER

The Trust Department Must be an Absolutely Independent Unit and Trust Activity Should Never be Regarded as a By-Product of a Bank. Uniform Laws on Duties of Trustees Desirable. The Liability of Trustees to Beneficiaries Should Not be Limited.

NO human motive lies deeper than the desire of man to protect his dependents. The widow and the child are the first concern of the husband who prudently looks forward to the time when he may no longer be here to care for them.

That desire of man to safeguard and protect his dependents forms the very foundation of our modern system of trusts and trusteeships. Because the corporate trustee is better able to provide that safety which is the first and indispensable requirements of every trust than is the individual trustee, the corporate trustee, slowly at first but very rapidly of recent years, has come to be generally recognized as the proper agent for the carrying out of the plans of the man whose primary desire is to protect his dependents.

The rapid increase during recent years in the number of corporate trustees, the even more remarkable growth in the value of the estates committed to the care of such trustees, and the almost unlimited field for future expansion of the trust idea would seem to make it worth while to consider the problems which confront the trust company of today and to direct attention to some of the things which merit the thought and attention of those who are charged with the safeguarding and administration of vast sums which have been intrusted to their care.

A Young Giant

THERE are now more than 4000 separate institutions authorized to act as corporate trustees in the United States. More than 400,000 estates with assets of more than five billions of dollars are probated annually. The value of the assets entrusted to the care of corporate trustees soon will reach a stupendous total. Steps to be taken to properly handle this new and rapidly-growing member of the banking family are suggested here by Mr. Phleger.

4000 Corporate Trustees

THERE are today more than 4000 separate institutions authorized to act as corporate trustees. The number has increased greatly in the past few years and will no doubt increase rapidly in the future. This rapid increase in the number of institutions which hold themselves out to perform trust functions, the great increase in the value of the assets committed yearly to their care and the enormous increase in the wealth of our country have, of necessity, placed a great strain upon the facilities of our corporate trustees. The facility which it is most difficult to provide to meet these increased demands is personnel. It is easy enough to provide the physical facilities. Vaults can be built and furniture and fixtures easily secured. But to provide the honest, experienced and sympathetic personnel necessary to properly administer the vast funds intrusted to their care is quite another matter. The American Bankers Association has done and is now doing a monumental work in the education of personnel. It is a never ending task but its importance cannot be overestimated for upon the ability and integrity of the personnel which administers the trust depends to a great extent the future progress of the trust idea.

It is only in recent years that the corporate trustee has attained importance. The general recognition of the fact that a corporate trustee possesses qualifications and responsibility that cannot possibly be possessed by the ordinary individual trustee, no matter how estimable may be his character, coupled with the enormous increase in the wealth of our country that has come during the past few decades, has resulted in a phenomenal increase in the number of corporate trustees and an even more phenomenal increase in the wealth that has been intrusted to their care. More than 400,000 estates with assets of more than five billions of dollars are now probated annually. It requires little imagination to vision a time when the value of the assets intrusted to the care and administration of corporate trustees will reach a stupendous total. The broadening of the field of trust activity by the creation of new forms of trusts, such as life insurance trusts, will result in an even greater increase in the assets administered by corporate trustees.

That being so, one might well ask, what is there to worry about? Isn't it a matter for congratulation that the corporate trustee has done so well in the past? Aren't we sure to do at least as well in the future? The logic seems irresistible, yet one would be foolhardy indeed who did not embrace the opportunity to survey the field of past progress in order to formulate from past experience those principles which are best calculated to furnish a safe and sure guide for the future.

What protections are advisable to insure to the corporate trustee the continuation of its progress in the future?

Not a Mere Contractor

THERE is a tendency with some to make the trust department a mere branch or part of the banking relationship. A trustee, particularly the testamentary trustee and the guardian, is not a mere contractor. He occupies a fiduciary relationship to a beneficiary. That's quite simple. We all know that. But how many of us pause to consider the multitude of obligations and duties that flows from that relationship; how many more burdens are imposed upon a fiduciary than are imposed upon a contractor.

The increase in the number of banking institutions which have established trust departments during the past few years is very great. To many such institutions the opening of a trust department has been looked upon as merely an enlargement of the business field of the bank, an opportunity to secure additional earnings through the performance of what would be considered a banking function. Other banks have opened trust departments merely as a means of holding customers from competing institutions with trust departments, with no idea of independent gain and with the object of rendering the service at as little expense as possible.

But a trustee's duties are radically different from a banker's duties. Its relation to its beneficiary is totally different from the relation existing between a banker and a depositor or borrower. A banker and its depositor or borrower occupy a debtor-creditor relationship; they deal at arms length, they make their contract, and the only duty one owes to

the other is the performance of the letter of that contract. The trustee and the beneficiary, on the other hand, do not deal at arms length. The trustee acts for the beneficiary, duties and obligations flow from the trust relationship which impose upon the trustee many restrictions which limit its action and increase its responsibility. The trustee must think not of its interest, but only and solely of the interest of its beneficiary. It must act in the best of good faith, it may acquire no adverse interest, it must keep the trust property separate and intact. The trustee performs a service for its beneficiary for which it is entitled to no reward save the reasonable compensation to be paid for the performance of that service. In contrast to this, the banker is entitled to any profit which may accrue by reason of its contract relationship. The banker may use the deposited money (within the limitations specified by law) for its own purposes; all profits accrue to it; any incidental benefits which flow from the relationship are legitimately the property of the banker.

A Sharp Distinction

THESE observations point to the necessity of preserving carefully the distinction between the trust department and the other departments of a banking institution. The trustee is not a banker and the banker is not a trustee. The banking institution happens to be the institution which is best fitted to perform in a separate department the functions of trustee. It has the necessary capital, it stands before the public as a representative of stability and integrity. It is therefore proper and natural that the bank should be the institution, rather than the life insurance company, or the building and loan company, or the title insurance company, selected and authorized by law to perform trust functions.

There is a tendency, however, on the part of some banking institutions to regard the trust department merely as a feeder to the banking department, or as a minor department that might be expected to pay some of the overhead and generally contribute to the business of the bank, by providing funds for deposit in its other departments or as a reservoir of assets which would enhance the influence and power of the bank.

Such a view is a dangerous one for the future of the trust company. The trust department is not a mere appendage of a bank, and the bank proper is not entitled to derive incidental benefit from its operation. The trustee's functions should be kept separate and distinct and the institution should look to the compensation received for the performance of its trust functions as its sole reward for its maintenance of its trust department, and not look to any incidental benefit or remuneration other than the natural good-will that results from a duty well performed.

Some trustees overlook the necessity of taking but one compensation as trustee. Many banks have separate departments—a real estate department, an insurance department, or a security department—which participate in the underwriting of securities. If a corporate trustee sells the property of a trust estate it may be sold through the real estate department at a commission; if the trust property is insured, it may be insured through the insurance department; securities may be purchased from the security department on which a profit is credited to that department and charged to the trust. In behalf of such a practice, it is urged that these services are not ordinarily performed by a trustee; that if others are employed to perform them they are paid compensation which is charged to the trust. Why therefore should the corporate trustee not be in equally as good a position; why should it not be entitled to deal through the other departments of the bank, and pay them the compensation which it would otherwise pay to outsiders? The answer is that a trustee is allowed but one compensation for all its services. If it has performed extraordinary services, that is to be taken into account in fixing its compensation, but it is not entitled to pay out of the trust estate, with its right hand, money into its left for services performed by its left hand.

Not Entitled to Profit

NOR is the trustee entitled to make a profit out of its dealings with the trust estate. It should not deal with a security department in the purchase of securities, where that department has any interest as underwriter or otherwise in the securities purchased.

These observations point to the importance of maintaining the trust department in an absolutely independent status; where it may act solely and exclusively with a view to the interest of its beneficiaries, and where it will receive and be credited with but one compensation.

This view could not be more ably expressed than by employing the words used in announcing the recent formation of the City Bank Farmers Trust Company, where it was said respecting the trust business:

> "It is in our opinion a business that can be conducted to its fullest efficiency only by specialists. It cannot be looked upon as a by-product, a side-line of a commercial banking institution. It is far too important. It is a business which, in the interests of those it serves, must be conducted by men whose lives are devoted exclusively to it."

Nothing truer was ever said. The trust officer is a specialist. And to become a specialist he must have experience as well as intelligence and learning. The educational work that is being carried on is of the greatest value and importance. But to achieve its full value and to permit the trustee to function so as best to perform its full duty, requires that the executives who conduct the trust department be independent and devote themselves exclusively to that work. That this result may be attained has induced some of the leaders in the field to establish and maintain separate institutions for the performance of trust functions. Separate institutions, while filling the requirements admirably, are not essential. But, it is essential that trust departments be absolutely independent and that trust executives devote themselves exclusively to their highly specialized vocation. In no other way can the corporate trustee properly perform its duties. In no other way can the future of the corporate trustee be properly protected.

Points of Confusion

THIS tendency on the part of some to confuse trust functions with banking or, indeed, banking functions, is due to various causes. Some of them are historical. The use of the word "trust" as part of the name of institutions that for many years have been very largely devoted to banking has been the cause of confusion on the part of the public as well as an incorrect attitude on the part of bankers. The widespread and increasing use of the word "trust" as part of the title of so-called "investment trusts" that are not trusts in the true sense at all, and that occupy no trust relationship whatever toward their stockholders, is causing a still further misconception in the public mind of the true nature and legal consequences of the trust. It is suggested that serious consideration might well be given not only to protecting the independence of the trustee, but in protecting the name "trust" from widespread use by institutions that in no proper sense can be regarded as trustees or as performing trust functions. The words "trust" and "trustee" should mean something. The true corporate trustees should be protected in their exclusive corporate use.

It seems strange that the trust, now so widely used for the protection of dependents, should have had its inception, at least in part, in the ingenuity of fraud. By the interposition of a trustee, the debtor thought to withdraw his property out of the reach of his creditors—the freeholder to intercept the fruits of tenure from the lord of whom the lands were held, and the ecclesiastical bodies to evade the statutes of mortmain. To such an extent were trusts employed for these purposes that the statute of uses was enacted to abolish them by providing for the execution of every use and the vesting of the legal title in the beneficial owner. Then it was that the modern trust as we know it had its beginning; then it was that the judges distinguished trusts of the kind that we know now from those abolished by the statute of uses and decreed that trusts could be created and maintained for lawful purposes.

The whole conception of the trust had its origin in judge-made law. Its creation and its progress have been the result of judicial decision rather than of statute, and indeed until comparatively recent times, statute law had little to do with trusts. It was inevitable in such a growth that uncertainty should exist as to just what the law is.

Evil of Varying Laws

THE transplanting of the trust from England to America as part of the common law and its change, modification and elaboration in the various states have resulted in a situation today where there is a total lack of uniformity. The substantive law of trusts varies widely in the different jurisdictions. The law governing the administration of trusts, the investments that may be made and the methods of accounting as between principal and income differ to some degree at least in every jurisdiction. Some states have attempted to cover the field by statute; others have left the matter to the judgment and control of the courts. In many states there is neither statute nor dependable judicial precedent to guide the trustee in the performance of its duties.

This should not continue. There is no more reason why the law should vary as between the states than should the law governing sales, or stock transfers, or bills of lading, or kindred matters. We know of the great work that has been done by the American Bar Association in the preparation of uniform acts on various subjects and in securing their adoption in the various states. There is the same, if not a greater reason, why there should be a uniform law respecting the administration of trusts. Under such a uniform law those charged with the administration of trusts will have the benefit not only of the direction given by the statute itself, but also the benefit of judicial precedent in the interpretation of that statute in other states. Now it is very much a matter of judgment based upon experience as to whether the trustee will be fully protected if it performs a certain act. The trustee is entitled to the protection which would be afforded by a uniform statute on the subject. There is no logical reason why in one jurisdiction stock dividends should be conclusively presumed to be capital while in others they should be classed as capital, or income, or part capital and part income, depending upon their source. There is no logical reason why in some jurisdictions trustees should be permitted to invest in common or preferred stocks while in others they are not. It is not necessary that the trustee have the right to invest in common stocks, or that stock dividends should or should not be conclusively deemed to be capital. But, there must be some uniform underlying principle respecting these matters which should be carried into the law of our various states, so that our trustees will know what their duties and powers are and so that they will be protected when they comply with them.

The public and our legislators look to organizations such as the American Bankers Association for guidance in these matters. Quite rightly they conclude that if there is to be a uniform rule, those who are best informed on the subject should suggest what that uniform rule should be. A suggestion by the American Bankers Association would go far in inducing our state legislative bodies to enact a uniform statute.

Some Forward Steps

PROGRESS is being made by the American Bankers Association in the formulation and advocacy of a uniform statute covering the complicated question of what is income and what is principal. I have examined the draft of the "Uniform Principal and Income Act." While there may be differences of opinion as to the advisability of certain provisions of the act, there can be none as to the advisability and great advantage of this work of establishing a uniform law upon the subject.

Certainly the future of the trust can be protected and aided by the formulation and enactment of a carefully drafted and uniform statute specifying the duties and powers of the trustee.

As contrasted with the beneficial effect of the enactment of carefully formulated uniform statutes governing the administration of trusts, it might not be amiss to consider the danger of attempting to modify our body of substantive law in order to enlarge the field of trust activity.

The rule against perpetuities, the laws against accumulations, the laws regulating spendthrift trusts, are all founded upon very deep-rooted public policy. It is true that these laws vary widely in the various states. In New York for instance the power of alienation may be suspended for a period measured by two lives, that is, two candles burning at the same time. Some states permit the restraint of alienation for the period of lives in being and twenty-one years. In some states accumulations are not permitted at all, in others they are permitted during minority only, in still others for a definite period of years. But no matter how these laws vary, they are all founded upon the deep-rooted public policy of preventing perpetuities and the unreasonable accumulation of property over a long period of years.

These statutes, of course, restrict the field for trust work. If there were no such restrictions, if a trust could be made to continue indefinitely, or if accumulations were permitted for 100 years, it is easy to see that the business of trust companies would be increased enormously. But the fact that these substantive laws restrict the business of trust companies is no sound reason why they should be repealed, if, in fact, they are founded on sound public policy. It is not advisable for those interested in trust companies to suggest the repeal or liberalization of such laws merely because they restrict the trust field. Indeed, it would be a dangerous thing for the trust companies to advocate any such changes unless such changes were based upon sound public policy. Repeals or changes in such laws should be attempted only after serious consideration has been given to the merits of such proposals, judged solely from the standpoint of public policy and entirely aside from their beneficial effect on the trust field. If our legislators, or the public, were to be led to believe that such changes were being advocated from any selfish motive, the result might be a severe set-back of the trust idea by the enactment of statutes designed to curb corporate trustee activities.

Growth of Trust Funds

THE concentration of trust funds in single institutions or related institutions, which has become more pronounced by reason of the many consolidations of banking institutions and the spread of chain and branch banking, has important social, political and economic aspects. These great aggregations of trust funds in a single agency have great potentialities from the standpoint of concentration of economic control. It is not unreasonable to predict that in the near future the aggregate of trust funds in the possession of corporate trustees in this country will exceed the aggregate of bank deposits. Having in mind that deposits may be withdrawn at any time, but that trust funds will remain with the trustees for many years, it is not difficult to anticipate that at some future time the attacks that are made from time to time on banking control may be directed at the control of trustee funds.

Laws such as the statute of mortmain were enacted for the purpose of preventing the perpetuation of the control of vast properties. It may be fanciful, but it does seem that it is only prudent to consider what the public political and social view may be in the future with respect to the control of vast amounts of others' property that has come about through the trust companies. It certainly is true that the public and political attitude will be more friendly if there has been no conscious attempt by the trust companies themselves to enlarge the field of their activities by changing substantive laws which have their foundation in deep-rooted public policy.

There are many who advocate provisions in trust instruments sharply limiting the responsibilities and liability of the trustee to its beneficiary. A provision that a trustee is to be liable only for an act performed in bad faith or for its gross negligence is well justified in a corporate bond mortgage, but it has no proper place in the ordinary trust indenture. The trustee is rightly held to the highest of good faith and the exercise of due care, that care which an ordinarily prudent man would exercise in the care of his own property. It was observed in the old case of Harden vs. Parsons that no man can require, or with reason expect, that a trustee should manage another's property with the same care and discretion as its own. This is neither sound morals nor good law. A trustee must use the same care in guarding the safety of the trust funds and in protecting the interests of the cestui que trust that it uses in its own affairs, and even that is not sufficient if the trustee is careless in its own concerns. The trustee must not only be honest, it must be intelligent as well.

A provision in a trust indenture limiting the liability of a trustee will be given effect in law, but the inclusion of such a provision as a matter

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The Savings Bank Division

Savings Bankers Urged to Warn Their Depositors of Dangers of Ignorant Speculation and Extravagance. Increased Efforts Called for to Acquaint Public with Advantages of Security and Safety of Savings Accounts in Addition to Investments.

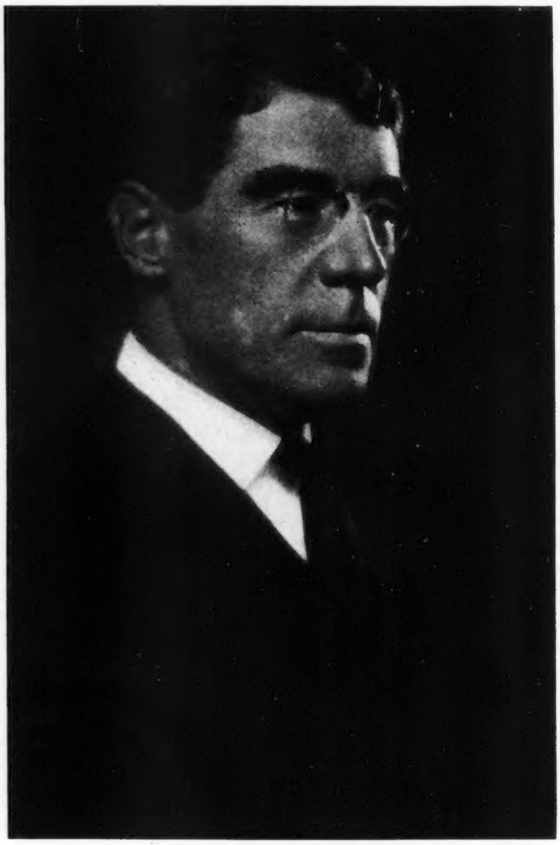
THE annual meeting of the Savings Bank Division was called to order on Tuesday afternoon, October 1, by President Taylor R. Durham. Invocation was pronounced by the Very Reverend J. Wilbur Gresham, Dean of Grace Cathedral, San Francisco.

A resolutions committee, named at the outset of the meeting, was composed of Austin McLanahan, president of the Savings Bank of Baltimore, chairman; Arlan W. Converse, vice-president of the First Union Trust and Savings Bank, Chicago, and Howard Whipple, vice-president of the Bank of America of California, San Francisco. The resolutions adopted by the Division upon the report of its committee decried the extravagance and the widespread desire to make money through speculative channels, concomitant of our country's prosperity which has continued uninterruptedly for many years and which have adversely affected the normal rate of growth in savings deposits and the inclination of our people to increase their capital by means of steady and persistent accumulation.

Aid For Investors

THE resolutions also urged savings bankers to warn those of their depositors who have not had the experience necessary to enable them to invest safely and wisely, of the dangers of ignorant speculation and extravagance; to offer to make available to those depositors banker services in the matter of advice and information, and to increase efforts to acquaint the public with the advantage of the security and safety of savings accounts in addition to other forms of investment which may be sound and desirable.

"Notwithstanding the fact that the new and severe forms of competition in recent years are disturbing to a considerable number," the resolutions continued, "the Savings Bank Division urges upon its members continued adherence to the highest standards of the profession; that they take no steps to meet the lowering standards of some competing agencies; that they stand confidently by their guns, conscious that the principles of savings banking established by the experience of over 100 years will survive, and that after the present movement has run its course the prestige of savings banking will yet be undimmed and its services appreciated and utilized by an ever-growing army of our people."



Austin McLanahan,

President, Savings Bank of Baltimore, Md. Incoming President, Savings Bank Division, American Bankers Association

Austin McLanahan, president of the Savings Bank of Baltimore, was elected president of the Division for the coming year and A. C. Robinson, president of the Peoples Savings Bank and Trust Company, Pittsburgh, Pa., was elected Vice-President.

The executive committee was named as follows: G. L. Daane, president of the Grand Rapids Savings Bank, Grand Rapids, Mich.; Ray Nyemaster, vice-president of the American Commercial Savings Bank, Davenport, Iowa, and J. C. Persons, president of the Traders National Bank, Birmingham, Ala.

Leasehold Loans

THE Division heard an address by Rufus Bernhard Von KleinSmid, president of the University of Southern California, Los Angeles, on "Today's Laboratory Is Tomorrow's Industry," in which the place of pure research in the development of industry and business was defined and the need for science in banking described. The address appears elsewhere in this issue.

Jay Morrison, vice-president of the Washington Mutual Savings Bank, Seattle, discussed leasehold loans as a new outlet for savings bank investments. His address, which caused considerable discussion during the meetings, appears elsewhere in this issue.

Before delivering the annual address of the president, which traced the growth of savings banking and which appears elsewhere in this issue, Mr. Durham discussed some of the problems of savings banking.

Results Were Illuminating

"WE have," he said, "standing committees who spend a great deal of time and much money and even energy in compiling information which is of undoubted value and which will be adding to your profit account if you take the trouble to avail yourselves of the information that they have developed. For instance, last year we had a committee who made a survey of the entire United States on methods of computing interest. Very much to our own surprise we found that of the banks advertising the same rate of interest there were fifty-two separate and distinct methods of arriving at the conclusions of the amount to be paid to the depositors of a given account.

"This committee prepared four typical

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Savings Banking Has Grown Up

By TAYLOR R. DURHAM
Vice President, Chattanooga Savings Bank and Trust Company, Chattanooga, Tennessee

Modern Tendency Is to Go in Strong for Savings. Financial Plans May Change with Years but Savings in Some Form Will Remain and Continue Popular. No Danger of Disuse for Plan by Which Middle Classes Have Achieved Competence.

IT is only in recent years that savings became a recognized factor of size and importance in economics. Time was when savings went begging for a place of deposit. The old sock, the sugar bowl, the opening in the hearth, the hidden drawer came into use as depositaries because there were no convenient banks doing a savings business. Within the past ten years newspapers referred to savings deposits as small savings.

The present Ambassador to Mexico, the Honorable Dwight W. Morrow, who has brought order out of chaos in the relations of America with Mexico called attention to the value of savings when in speaking to a great audience at Atlantic City shortly after the close of the World War said that the war devastated countries of Europe would be restored by the savings of the people who never appeared in newspaper headlines and who know nothing of international relationships. Today the volume of savings in America arising out of capacity employment and good wages forms a basis of credit and buying power in America at once the marvel and the envy of our neighbors.

"Going Into It Strong"

WHERE once a sprinkling of banks encouraged savings deposits, now it is estimated that 85 per cent of the 25,000 banks in the United States advertise for them.

"George," said the president of a large bank in one of the larger cities of northern United States to one of his vice-presidents a year ago, "make a study of the savings business, attend the regional savings conferences of the Savings Bank Division of the American Bankers Association, get all the information you can. I believe the savings business is the best in banking. We are going into it strong."

That is the modern tendency. This growing up of savings comes from several factors. The first a negative factor, —the early breakdown in America of community ownership was quickly followed by a positive factor—the development of private initiative. Early then came savings banks along the Atlantic seaboard. They were not buttressed with legislation as now. There were occasional failures. However, there was the will to establish safe banking institutions for savings which it was contemplated would use their resources in financing home ownership among their customers. These institutions were established to take care of money already in the community and not as an agency to draw money to a community. To this extent they differed from the banks later established in the western country along the trails of the emigrant.

America Was Built Late

THESE later banks were reservoirs of credit supplying money from the East, where it was in comparative abundance, to the West and the South. As money came to be earned in these sections it was deposited in a department of the bank. Thus to the West came the commercial bank with the savings department as an adjunct. It was only after money had accumulated that the distinct savings bank came into existence in the West.

Another factor in the growth of savings was the rapid development of the factory system in America together with the American flair for machinery. This necessitated skilled labor, and skilled mechanics received high wages.

America was built late. European countries were built by people afoot. A citizen had his few acres. America was built by men on horseback, on boats, even on railroad trains. Men bought acreage "as far as the sound of a dog's bark" as much as "a man can walk around in a day" and the like. His plans and ideas were in keeping with the size of his holdings. Thus again the use of machinery was encouraged.

Acted as Umpire

ANOTHER factor was the absence of restraining legislation. In some countries savings deposits were limited because the government guaranteed them and did not wish too great a liability. Government owned the agencies of transportation so that opportunities of investment with chances of appreciation were lacking. Government was paternal, and the great mass of the people accepted the situation. Here in America investment followed savings and the government for the most part acted as umpire. The sturdy attributes of a vigorous people were developed in this atmosphere.

We might well remember that since the stabilization of our currency after the Revolutionary War, our people have not been tormented with debased money. Fluctuation there has been in times of stress but always the situation was eventually righted.

Again with one notable exception wars have not drained our country of its money and left a wake of disabled people to be supported by the savings of their kin. In America, too, has been the energy and the ability to stamp out those great plagues of living which condemn a part of our people to poor health and consequent low earnings. So has gone cholera, malaria, hookworm and yellow fever. So too have gone the blight of impure water, bad sanitation and that long list of drains attendant upon poor living conditions.

Still another factor favorable to savings has been low taxation. Until recent years tax rates in America have been low. This left free large sums of money which in other countries would have gone to support government.

Education Is Rampant

A BENEFICIAL government has ended the menace of the gypsy moth, safeguards our herds of cattle from tuberculosis and aims to protect our fruits and grains from insidious insects.

These in a way are not factors which increase savings. They simply supply a situation which affords a good opportunity. They level the ground for a satisfactory foundation.

With the groundwork laid, comes incentive developed from desire to have and use, and fanned by a knowledge of what others have accomplished.

Education is rampant in America. It is the great panacea for all ills. Newspapers and magazines pour out a steady stream of information. Every schoolboy knows that Chrysler and Dodge and Ford and Westinghouse and Edison and Lindbergh and a million others started at the lowest round of the ladder, and that the American practice is geared so as to help their aspirations to success.

A Measure of Overplus

PRIVATE initiative, emulation and education do the rest. It has been stated that the principles of entail and primogeniture as utilized in Great Britain have been a factor which delayed

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EDITORIAL

Group Customers

GROUP bankers and unit bankers generally agree that there is a place for both types of banking in this country. Discussion of the subject usually centers upon the question of the extent of group banking rather than fundamental principles. Both, however, frequently overlook a figure that is emerging from the background.

The government is beginning to come to the front in the banking field in a way that holds great potentialities for influencing the trend among private institutions.

Growth of the group system of management and the impressive mergers and consolidations in the arena of finance have concentrated attention upon but one side of the picture. On the other side are those upon whom financial institutions depend for business. Be they unit or group, banks must have customers. The customers are showing signs of the same trend evident among the institutions.

Those who participate in the activities of investment trusts illustrate the consolidation idea among the customers. The government is fostering the same idea in banking.

For several years the Federal Intermediate Banks have been loaning to cooperative marketing associations. These banks developed this method of extending credit as a policy for farm aid. The newly established Federal Farm Board is functioning along the same lines, loaning to group customers.

Duplication of government activity in this connection but serves to emphasize the pressure being brought to bear upon those who seek credit to consolidate. In the agricultural sections of the country group customers are coming into being through the force of government circumstance.

Who can measure the extent of this force? So far there have been no concrete expressions of where government accommodation of its group customers draws the line to distinguish between farm relief and commercial banking. Obviously the more farm credit the government extends the larger the groups of customers. The spread of the group idea among customers is to be considered in any appraisal of the future of banking.

The Infant Industries Grown Up

IN the days when a compelling plea in behalf of a high tariff was that a high tariff was necessary for the protection of infant industries, little thought was given as to how the infant would act when tender nursing and time had transformed it into a strong man.

If anyone gave thought to his conduct in that happy time to come when he was strong, wise and independent, it was easy and natural to suppose that he would be grateful to those who brought him up.

But natural infants sometimes disappoint their real or foster parents by going their way without looking back, and they have been known even to turn ingrate.

Our "infant" industries have grown up under splendid and adequate protection from the industries of foreign nations. Now the infants of a generation ago are actual giants, and having reached the limit of expansion here some of them are beginning operations in other countries—they are setting themselves down among those from whom we so zealously protected them.

When in the course of time they have gained another cubit of commercial stature, and can manufacture all of their products cheaper abroad than here at home, what will be their attitude toward the tariff wall which sheltered them while they were young?

Will they have a sentimental feeling for it and for the workingmen on this side, or will there come upon the United States a new flood of economic reasoning, with the refrain "the world is an economic whole" running through it to the dismay of American workingmen, and to the joy of Americans who like to be paid at top prices and purchase at low prices?

Tax-Exempt Certificates

IT would seem that the principle of exemption from income taxation for government securities has become fixed in the economic system of the United States. Treasury financing in September signalized the acceptance of this principle as a national proposition when $500,000,000 of certificates of indebtedness were offered for subscription under the new law which grants full exemption from Federal income taxes to this class of securities.

This law, enacted in June, primarily authorized the Treasury to sell government bills at a discount. It also made future issues of certificates of indebtedness exempt from the normal income taxes and the surtaxes of the Federal government. At the first opportunity after the passage of the law the Treasury promptly availed itself of this advantage.

Superficially it might seem that the Treasury has reversed itself on the question of tax-exempt securities. On the contrary the cold necessity of competition has driven the Treasury to do the thing it fought for years. Until recently Secretary Mellon has annually been urging upon Congress the adoption of a constitutional amendment to end the issuance of tax-exempt securities by state and municipal governments. The tremendous volume of these securities floated, by means of the tax exemption privilege was considered an altogether undesirable factor in the affairs of the nation.

However, no progress was made in persuading the states and municipalities to abandon the issurance of tax-exempt securities. This left the Treasury in the position of selling its obligations, exempt only from normal taxes, in competition with fully tax-exempt

securities. Unable to obtain recognition for a principle the Treasury has been compelled to meet a situation.

Except as a factor in depressing the government rate the exemption from income taxation for Treasury certificates of indebtedness is of little concern to the banks. They are purchased for secondary reserves rather than as investments. But the apparent fixation of the theory of tax-exempt government securities—Federal, state and municipal—offers no indication of any lessening of the competition in the market between "tax-exempts" and the less favored financing of business and industry.

Germany, Incorporated

PRESENT day Germany is very much like a corporation with two classes of stockholders, preferred and common. The former Allies who receive reparations are the preferred stockholders. Those who have loaned money to German interests since the war hold the common stock. At present this common stock is non-voting.

America holds the majority of the common stock in Germany and none of the preferred. The former allied nations hold all of the perferred and very little of the common.

The extent of the American holdings is enormous. The Commerce Department estimates that during the period from 1914 to June 30, 1919 German securities to the extent of $1,179,000,000 were publicly sold in this country. The total includes all classes of German issues, governmental and private. In addition there have been millions of dollars invested in German securities that were not publicly offered.

Under the Young plan for the settlement of the reparations question the board of directors of "Germany, Inc.," will be the directors of the Bank for International Settlements. The preferred stockholders will be represented by officials of their central banks. This country will be represented by private individuals as the Federal Reserve System has been forbidden participation in the operation of the Bank for International Settlements.

American directors of the Bank for International Settlements will be faced with great responsibilities. They will represent investors in Germany rather than receivers of indemnities. They will have no official status whereas their collegues will be chosen by government institutions. The effectiveness of the American directors will depend in great measure upon the support given them by public opinion in this country, which must be the informed opinion of those who have invested in Germany.

What Kind of Banking?

THE banking questions that are uppermost in the minds of bankers today are principally concerning the *form* of organization which banking shall take. Highly important though that may be, is not this more or less beside the mark when we contemplate such cases as the City Trust Company and the Clarke Bros. in New York, and the startling maneuvers of a country banker in neatly but fraudulently setting up for himself a pool of credit in New York City?

These three cases—not to mention any others—place the emphasis on the necessity of setting up precautions which shall insofar as it is possible to do so, keep unworthy and unfit men out of banking. These cases also place emphasis upon the necessity for a more vigilant, penetrating bank supervision—a supervision clothed with more power to act immediately and effectively. One form of bank charter may have elements of great strength and another form potential weaknesses but the strong, safe, God-fearing banker well-grounded in the fundamentals of his profession will conduct a safe bank no matter what kind of a charter he has, whereas no charter, limited or unlimited, will keep in the middle of the road the unfit man or the unfit group of men operating under the sign of "bank."

The sovereign power of the people can, if it will, keep many of the unfit out of the banking business; it can, if it will, hold all who are in the banking business to the market!

The first step is to get away from the habit of drifting along with the problem. If, for illustration, the states would show a little of the initiative and broadmindedness toward appropriation for state banking departments that they commonly exercise toward building good roads through waste lands, there would be less waste in banking!

And there would be less burden for the prudent, safe, conservative bankers to carry!

He Cannot "Stand His Ground"

IN the days of housing shortage there was many a surprising deal in real estate. Prices went up by leaps and bounds. After one piece of property had been bought and sold several times, the first seller often regarded himself as having been short-sighted. A large part of the answer to the question, "How can they afford to pay that price?" was to be found in the schedule of rents. If the rental increase were not conincident with each sale, then the advance was only deferred; someone was biding his time either to raise the rent or to show a prospective buyer how he might make a new high rate on his investment.

It is to be hoped that sales and transfers, consolidations, mergers and absorptions that are taking place in merchandising enterprises may not be attended by an inverse application of the same principle. In organizations where there are many employees engaged in non-technical work, requiring no education, no technical knowledge and a minimum of training, or no training at all, profits should not be built higher by making the payroll lower.

Upon the unskilled workers the burden of the new high level of rents and prices was heavy and if increasing numbers of this class should in the years to come be compelled to adjust and readjust their standards of living, the necessity for such adjustments would not be a factor making for a continuance of prosperity.

In the midst of a changing world the farmer could "stand his ground" because either as owner or tenant he had the ground on which to stand, and he had shelter and sustenance while he clamored for recognition, money and the help of the government to make the townsman pay him better prices.

But the poor "hired man" in the city is in a position of far less advantage.

He cannot "stand his ground" for he has none on which to stand and little prospect that he ever will attain a degree of independence.

Leasehold Loans for Savings Banks

By JAY MORRISON
Vice-President, Washington Mutual Savings Bank, Seattle

Loans on Long-Term Leases Considered Safe Investments When Necessary Requirements Are Present. State of Washington Has Authorized Savings Banks to Make Loans of This Type. Change in Real Estate Customs is Compelling New Banking Procedure.

TO many savings bankers, a comparatively new phase in the mortgage business is the subject of mortgage loans secured by a leasehold interest in real estate.

Many hold up their hands in horror and say that a loan on a leasehold interest is analogous to a second mortgage, and certainly no savings bank should be interested in second mortgages. It is true that leasehold interests have outstanding ahead of them the interest of feeholders, and in that respect they are analogous to second mortgages—but it is also true that not all second mortgages or loans on leaseholds are hazardous investments, just as it is not true that all feehold loans are safe investments. There may be safe second mortgages, provided the first mortgage is sufficiently small in ratio to the value and income of the property, and there may be safe loans upon leasehold interests provided the loan is sufficiently small and the leasehold interest is sufficiently valuable.

Keeping Pace

EXTENSION of the loaning field for savings banks is advocated here to keep pace with developments, attributed to high income taxes, which is believed to be forcing a concentration of interests in real estate in this country to a point approaching the system of entail long in force in Europe. Leasehold loans are suggested to meet the situation and carefully worked out methods of judging the safety of individual mortgages are described and proper restrictions are recommended.

Due to Simple Customs

THE holding of property on long-term leases in the United States has been comparatively rare until recent years. In general real property has changed hands readily, due to simple customs and the lack of agreements complicating title. Some people think that the prosperity of the United States and its unprecedented economic development are due to the ease with which property, both real and personal, is placed in the hands of those who can use it most productively. Some people believe that the difficulties placed in the way of transferring property in European countries have tended to retard their economic and industrial development.

The law of entail and primogeniture kept large estates in England in the hands of single owners. Some of these owners were unfit properly to manage or develop their properties, and their incapacity crippled the entire community. Had the laws and customs of England been such as to permit this property to be readily and easily transferred to people of ability, stagnation could have been avoided. Many of the estates which were subject to entail were in actual fact in mortmain.

Up until 1913 there were few, if any, obstacles to the ready transfer of real estate from person to person in the United States, but in 1913 there was enacted the Federal Income Tax Law. In the administration of this tax, profits taken on the sale of real estate are included in the taxable income for the year in which the sale is made. The rate of taxation increases very rapidly as the income increases. The result is that people holding land which has increased very greatly in value since 1913 refuse to sell, because if they do sell at present prices, they have to pay to the United States Government in taxes a very large percentage of the sale price.

The progressive feature of the Federal Income Tax was placed therein for several reasons. Among other reasons is an underlying philosophy of taxing the rich at a higher rate than those of moderate income, in order to redistribute the wealth of the community. Both the Federal Income Tax and the Inheritance Tax are designed to break up rather than perpetuate large fortunes. In so far as the income tax applies to profits in the sale of real estate, it has defeated its own purpose. It has so retarded the sale of real estate and so encouraged the long-term lease on real estate as to consolidate the holding in family hands, and it has tended to establish vested interests almost as rigidly drawn as did the law of entail.

In the growth of our cities values have not only shifted from place to place, but entirely new values have sprung up in sections where the land was of little value in 1913. The development of transportation by motor vehicle, and the growth of outlying suburban centers—but most markedly of all the rapid shift of high-class retail districts from old areas to new areas—have created values undreamed of in 1913.

As these new areas come into development, their transfer from old ownership to new ownership in fee is practically prohibited. The mortgage lender whose loans are restricted to fee simple properties is finding himself barred from a larger and larger percentage of the most valuable and most productive urban properties. The result has been that the finance of the improvement of these properties has been done by means of bond issues secured on the leaseholds. Everyone is aware that the bond issue represents a very expensive form of finance.

Safety the Criterion

THE savings banks in the state of Washington studied the problem of leasehold loans and had presented at the last session of the Washington Legislature a bill authorizing them to make loans on leaseholds meeting certain requirements. It was not believed that the requirements set up by the law would prove to be perfect. Undoubtedly the requirements will have to be modified from time to time, but it was believed that the law erred on the side of conservatism.

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Today's Laboratory Is Tomorrow's Industry

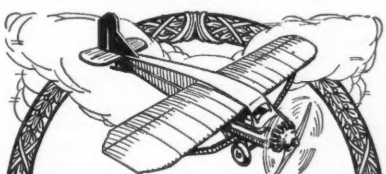
By R. B. VON KLEINSMID, PH.D., LL.D.
President, University of Southern California

Once Opposing Views of Industry and Scholarship Are Coming Closer Together. Research is Now Recognized as Essential to Success in Business or Banking. World Wide Awakening of the Nations to Necessity of Establishing Laboratories Observed.

WHILE it may be, and probably is, good sport to criticize colleges and universities adversely because of their hordes of students, their increasingly broad curricula, their love of athletics, and their far-flung degrees, yet the abandon of criticism seems suddenly to be checked at the door of the research laboratories fostered by such institutions. Two reasons among many easy of assignment are: One, that the public in general, ignorant of what it is all about, hesitates to declare itself ignorant; and two, that here and there such practical results have come to public notice as to surround research procedure with the sanctity of miracles.

Such organizations, too, as the National Research Council and the Research Corporation have served to inspire confidence because of the unselfish dedication of their investigations and discoveries to the progress and prosperity of humanity; which investigations and discoveries on the part of these and other public and private institutions have kept the world in a constant state of wonder and amazement.

It is no longer as difficult as it once was to believe, with Alice of Wonderland, "six impossible things before breakfast." In fact, so expectant have we become of new and astonishing phenomena, that, as one puts it, "the only information that counts for much today is the information that the other fellow doesn't have."



Trying Its Wings

SCHOLARS at work in the seclusion of cloistered halls discovered the principles which have lifted industry to its present pinnacle, conquered space with sound and freed mankind from the grip of the earth. Just as exploration of the air is merely beginning, so is the partnership of pure science but trying its wings. But this partnership promises progress far swifter than even the revolutionary developments of the past.

The Price of Progress

THREE hundred new inventions per hour is the pace of the present generation and yet we dare to be disturbed because our children act strangely in a world where "old things are passed away, behold, all things are become new." (It might be remarked parenthetically, however, that the old virtues are still rated above par.)

It is not surprising, then, amidst all this newness, that new attitudes must be taken and new methods employed. No field of human endeavor has learned this fact with greater certainty and at larger cost than has industry. Slow to recognize the necessity of new methods in old corporations whose earlier capital was represented largely by integrity of product and honor and dignity in personnel, thousands of corporations have discovered through defeat and bankruptcy that, as Arthur Little puts it, "the price of progress is research, which alone assures the security of dividends, and that progress is made not by raising tariffs, but by devising new methods, new equipment, new organization for operation, distribution and control." He further reminds us that of forty-four American companies which, during the war, engaged in the production of potash, only one has survived, and it is that one alone which developed and supported a program for research.

Research Means Success

IS not the failure of the farming industry to see this truth responsible, in part at least, for the present low ebb of agriculture and the pathetic and alarming spread of sterile acres all over the country? There are said to have been 31,000,000 acres of farm lands abandoned between the years 1920 and 1925, while annually 300,000 farms, fearing reduction to peasantry, have been abandoned. Perhaps this is not to be wondered at when we recall that of 86,000,000 horsepower used on American farms today, only 3,000,000 represent the product of machinery. Production is not the only problem, nor distribution, nor transportation, nor storage, nor credit, nor labor, nor sales; the lack of scientific method based upon widest information and wisest application is at the root of this industry's troubles.

This statement is not intended to belittle the work of three score and more agricultural experiment stations which Federal and state governments have scattered from Maine to California and throughout our insular possessions; but only to emphasize the more strongly the necessity of supporting such institutions, and to lament, perhaps, the tardiness of practical results. That private capital could find satisfactory returns for generous investment in agricultural research is generously proved. In this field research means success while the lack of it means failure. It should heardly remain true that with all our tillable expanses agriculture in the United States stands to manufacture only in the ratio approximately of one to three.

Fortunes from Logs

AN illustration in a kindred field may be in order; timber is valuable directly in relation to ease of access and transportation. For decades great forests have remained untouched because of almost unsurmountable difficulties at these points. At the present time, however, wooden railroads are being constructed into remote areas which have served to cut down the cost of transportation from $3 per thousand to fifty cents per thousand, have lengthened the working season from three months out of each year to twelve, and have reduced the construction cost of highways for this purpose from $50,000 to $5,000 per mile. In addition to fortunes from logs,

capital has been richly rewarded by the salvaging of twigs and leaves to be pressed into pasteboards and of sawdust for the making of paper.

Quite too frequently there has been thought to exist a wide divergence between the work of the school and the program of industry—the activity of the scholar and that of the industrialist. For the benefit of all, however, the one-time opposing views of industry and scholarship have been brought more nearly together. There is much to be said for the scholar whose labors have been carried on far removed from the workaday world of men and who consequently looks with grave concern upon the encroachment of commercialism upon his "classical tradition in a sylvan setting" which he has known as his own holy ground—commercialism which he has found too often contemptuous of his scholarship.

On the other hand, it is not difficult to understand the position of the industrialist whose emphasis, perforce, has been placed upon the production of goods and the making of profits at the same time, in order that his industry might continue to thrive, the workman to be maintained, and the stockholders to remain satisfied. In these days, however, we have come to realize the interdependency of laboratories of scholarship and institutions of industry. Not only are both legitimate, but, if the larger interests of mankind are to be served, the one cannot prosper without the other.

Super-Men Not Required

ONE of the by-products of this interrelationship is the realization on the part of scholarship that business principles may be applied to organizations for scholarship to their great advantage —a fact too rarely recognized by schools and colleges. Earl P. Stevenson, speaking before the American Association for the Advancement of Science, says:

"Organized research does not depend upon individual genius; it is a group activity, as distinct an activity as selling merchandise; it is as capable of organization and direction; so-called business methods are equally productive in its administration. Super-men are not required—but as the demand today is for intensive development, tasks are of all orders, and many can qualify."

Another by-product, perchance, lies in the fact that the discoveries of science particularly applicable to one industry may be equally advantageous to many other industries employing kindred elements and processes in manufacture. Someone has pointed out that the same chemical processes are used in making printing ink, condensed milk, cement, sugar, nitroglycerin, and salad dressing.

A Stimulating Thing

SCIENTIFIC investigation may be an extremely discouraging thing to both scholarship and industry, ofttimes correcting both former conclusion and previous application. It is much more likely, however, to be a mighty, stimulating thing, revealing the fact that the former conclusion was entirely right and sufficient for the then known facts, but wholly inadequate for newly-acquired truths.

The new physical chemistry may have closed some factories, but it has opened many more; witness the advent of Duco, artificial silk and a score of substitutes for expensive and rare materials. What the radio did to the Victor Talking Machine Company, with its long record of cash and stock dividends, other inventions have done to other corporations. With the coming of the radio, the Victor company overlooks a dividend date, and hastens to meet the growing popularity of the radio with the improved products of keenest research. And the end is not yet, for Marconi prophesies that the future of radio is still very bright. Manifestly, then, something additional must take place in the talking machine industry if it is to survive at all.

To prove the assertion that research pays dividends, one has only to point to the activities and prosperity of General Motors, American Telephone and Telegraph, General Electric, and Standard Oil—to name the largest corporations which make up a very appreciable amount of the $75,000,000 which industry invests in research every year. Add to these those industries whose phenomenal success has astonished the world and you have a still greater debt to pay to research.

Other Nations Awaken

IT must be borne in mind that while America as an industrial nation owes her exalted position among the nations of the world to her devotion to research, other nations, so long leaders in the field of pure science, have awakened to the necessity also of applying scientific principles to factory problems.

In France, among the sixteen universities, such distribution of research activities has been made as to allow of the closest relationship of the institution and the industry nearest at hand, and that industry helping to support scientific investigation is allowed by the government to deduct from their income tax a percentage of the amount devoted to research, as in America we are permitted to deduct a percentage of that amount which we devote to charity. A tax on salaries paid among industries in France is sufficient to raise $750,000 each year for research. Thus does France propose to come back, industrially speaking, after the war.

In England, twenty-six research associations are the recipients of an amount of government subsidy practically equal to our own, that is, $25,000,000. The position of Germany is well known, while out of Italy and Scandinavia come reports of renewed energy and greatly increased expenditures for scientific research.

What is our answer to this worldwide awakening of the nations to the necessity of establishing and supporting laboratories? Clearly not more and higher tariffs, but more and deeper research. And to this may be added a more ready recognization and acceptance of the unquestioned value of research accomplishments. The American rights under the viscose patent for artificial silk could have been purchased at one time for $50,000. No American buyer could be found.

In 1925, a foreign-owned corporation produced in this country, thirty-six million pounds valued at $81,000,000. The sulphite process for making wood pulp; the basic syntheses for dye manufacture, the manufacture of methaenol from blue water gas, not to mention rare accomplishments in the field of optical glass—all remind us of lost opportunities in America to capitalize American intelligence for the prosperity of American industries.

More immediately affecting the insurance business, perhaps, is the influence of research upon the problem of living. The industrial position and the productive capacity of a man first and then of his nation, depends upon the per capita units of energy made available; an entirely new world of possibilities opens up to the worker who, through the application of scientific principle, finds the strength of one individual multiplied by fifty-five. Imagination fails to register in the presence of possibilities flowing from the now available turbo-generators of 80,000 horsepower. Verily is the Scripture fulfilled in this day, that—one shall chase a thousand and two shall put ten thousand to flight.

Coupled with this increase in individual power, take into consideration the elevation of the standards of living with new labor-saving devices, improved materials, better methods and practice, the contributions of science to education and recreation, and not only is the payment of more insurance premiums a possibility, but the demand for the payment of the policy's face is indefinitely postponed, motherhood having long since been relieved of its chief terrors, and the average duration of human life increased from thirty-five to fifty-eight years in the last half century.

Forward-Marching Moods

WITH the cost of bread lowered $40,000 per day, through the discovery of a new yeast food and with rayon silk within the easy reach of all, and with the sea yielding $1,000,000,000 annually, who in these days would consent to die, even for the commendable purpose of escaping the cost of living and of collecting the principal of the life insurance policy for the family's sustenance? The happiness and prosperity of the average American is more deeply affected by the manner in which America's business is conducted than by the way America's government is run. Long ago Patrick Francis Murphy said, "to stay where you are in the United States you have to keep moving."

Research is the slogan of the hour; it is the only method in these days by which we can run fast enough to keep

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The State Bank Division

Opposition to Plans of Comptroller of Currency for Branch Banking Expressed by State Bank Division as Giving New and Unfair Advantages to National Over State-Chartered Banks. Appointment of Congressional Committee on Banking Welcomed.

THE State Bank Division met on Wednesday afternoon, October 2, with Vice-President Dan V. Stephens, president of the Fremont State Bank, Fremont, Neb., presiding. Illness prevented the attendance of S. J. High, president of the Peoples Bank and Trust Company, Tupelo, Miss., the President of the Division.

Mr. Stephens was elected President of the Division for the coming year and M. Plin Beebe, president of the Bank of Ipswich, Ipswich, S. D., was elected Vice-President.

Members of the Executive Committee were named as follows: W. A. Williams, vice-president, City Central Bank and Trust Company, San Antonio, Texas; Hugh H. Saxon, vice-president, Continental Illinois Bank and Trust Company, Chicago, and Clyde Hendrix, president, Tennessee Valley Bank, Decatur, Ala.

The Addresses

THE annual address of the President of the Division, which appears elsewhere in this issue, was read to the meeting by Mr. Stephens on behalf of President High.

Bank cooperation and the three-sided problem of unit group and branch banking were the subjects discussed at the meeting. S. L. Cantley, Commissioner of Finance of Missouri, spoke on organized cooperation as the basis of sound banking. The dividends possible from regional cooperation were described by W. L. Brooks, president, Northern National Bank, Bemidji, Minn. M. Plin Beebe, president, Bank of Ipswich, Ipswich, S. D., spoke for unit banking as best adapted for agricultural sections. E. G. Bennett, vice-president, First Security Corporation, Ogden, Utah, stood for group banking as best for agricultural communities. Clyde Hendrix, president, Tennessee Valley Bank, Decatur, Alabama, advocated limited branch banking as best adapted for agricultural regions.

The meeting unanimously adopted a series of resolutions touching upon outstanding banking questions which were drafted by a committee composed of F. M. McWhirter, president, Peoples State Bank, Indianapolis, chairman; M. Plin Beebe, president, Bank of Ipswich, Ipswich, S. D.; Frank T. Hodgdon, cashier, Farmers and Merchants Bank, Hannibal, Mo.; John M. Kinard, president, Commercial Bank, Newberry, S. C.; M. H. Malott, president, Citizens Bank, Abilene, Kan. and Hugh H. Saxon, vice-president, Continental Illinois Bank and Trust Company, Chicago.

Dan V. Stephens,

President, Fremont State Bank, Fremont, Neb. Incoming President, State Bank Division, American Bankers Association

The resolutions declared that "inasmuch as the annual conventions of the State Bank Division of the American Bankers Association have the value of giving perspective to problems which are uppermost at the moment in finance, the delegates to this convention are already familiar with the questions calling for the attention of all bankers. However, it may not be amiss to focus attention on a few of the more important of these problems.

"In some states inequalities in taxation exist between national and state banks, to the detriment of the latter. These should be removed.

"To the State Bank Division with its membership representing more than 10,500 banks in 48 states and with those banks governed by the rules and regulations of 48 state banking departments and operated under forty-eight codes, the assertion that there is need for uniform state banking laws is not a platitude.

"While lack of uniformity exists, and to an extent is highly desirable, there are certain fundamentals which are standard. It is on these that uniformity of legislation and supervision can be hoped for. If such uniformity can be brought about there will be less confusion in the public mind and the change will contribute to the further development of sound banking.

"It is generally admitted that there is need for two systems of banking, national and state, and that the two lend strength to our banking machinery. But that there need be inequalities between the two, few, if any, will contend. Thus, there is little or no justification for requiring State Banks to maintain reserves far in excess of the reserves required of national banks. This situation is still more aggravated by the lack of uniformity among the several states. The result is that certain commonwealths penalize their own state banks in this regard, thus forcing them to compete on an unequal basis with national banks and even with state banks in other states where laws are more favorable.

Unit Banking

"INDIVIDUAL initiative and effort have long been an outstanding American accomplishment. Just how far and how long mergers, combinations and unified control may persist in the field of banking no one can foresee."

"The Division declared itself firm in

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The State Banks Follow Through

BY S. J. HIGH

President, Peoples Bank and Trust Company, Tupelo, Miss.

Vigorous, Nation-Wide Campaign Conducted by the State Banks for Greater Coordination in Banking Legislation; for More Equitable Conditions and More Uniformly Efficient Public Supervision of All Banks in the Several States of the Union.

THE expression, which originated with the golf game, has been adopted by business also; it is an important rule and one that beginners should learn—"follow through."

Several years ago, to be exact in 1926, the State Bank Division outlined a general policy as to its future plans and activities and we have tried consistently to "follow through" during each successive administration. We have endeavored to coordinate our work and to show a cooperative spirit with the other divisions, sections of the association, in all its work.

As our Division comprises a large majority of the small banks of the American Bankers Association, we have endeavored to be especially helpful to them, as their need seemed the greatest. We have put emphasis on "better banking" and "more profitable banking" and our policy has met with an enthusiastic reception.

Committed to Uniformity

BANKING in the United States is recognized as a semi-public type of business, and is therefore subject to laws defining the scope and character of its activities. These laws in the past set up a great diversity of conditions under which banking is conducted in various parts of the country—since they come from both state and Federal authorities. National banks, of course, operate along uniform lines in every state, but there is no such regularity in respect to the conditions under which the state banks operate in the various forty-eight states. All banking codes, while they may have similarities, also have many great dissimilarities.

The State Bank Division is committed to the task of bringing about a greater consistency and uniformity in the several states, and we have carried on a vigorous nation-wide campaign for greater coordination in banking legislation, more equitable conditions, and more uniformly efficient public supervision of banks in the several states.

Free from Politics

OUR Division is particularly concerned regarding the public supervision of banking institutions by the state banking departments. We are on record favoring the policy that the important office of state bank commissioner should be kept free from entangling partisan politics, and should be completely detached from all other functions of state government.

Our Division is also on record as favoring the policy that the tenure of office of state bank commissioner should be made more secure and lasting than is now the case in many states, and that this important public officer be granted sufficient compensation and discretionary powers so that the office shall attract and retain the services of men of outstanding executive ability and successful banking experience.

We also advocate the policy that the bank commissioner's ability to serve well should be strengthened by providing him with an adequate force of bank examiners selected on the basis of merit, from men having the requisite qualifications of honesty, ability, training and banking knowledge to carry out the duties of their office on the highest plane of usefulness to the public as well as to banking.

Tendency Toward Sole Power

A SURVEY of the conditions under which the bank commissioners perform their work has just been made by the State Bank Division. It reveals a very definite trend toward the policies advocated by the State Bank Division, as to lengthened term of office, freeing the office from partisan political influence, adequate salaries, more discretionary power, and an adequate staff of examiners, etc.

This survey also indicates a tendency to give the bank commissioners, or banking boards, sole power as to the granting of charters for new banks, thus enabling them to use discretion as to the need, or desirability, of added banking facilities, or the fitness of the organizer to enter the banking field.

Our committee on closer relationship with bank commissioners has been most effective and much constructive work has been accomplished. Our relations with the bank commissioners have continued to grow and develop in a helpful, effective manner. At the Philadelphia Convention twenty-two bank commissioners sat in with the State Bank Division officers at a special dinner conference and discussed problems in common. This year the national association of state bank supervisors held their annual convention a few days ahead of our Convention in San Francisco in order that the commissioners might also attend our Convention. Needless to say, we accorded them a hearty welcome.

Gathered Valuable Data

OUR Division has cooperated with the Clearinghouse Section in urging bankers to make an analysis of their checking accounts and install proper service charge as a stop-loss on services they have been rendering without compensation.

Our Division has consistently and persistently advocated "a complete credit file for every borrower with unsecured loans of $500 or more."

Our committee on Federal legislation of the State Bank Division has actively cooperated with the committee on Federal legislation of the American Bankers Association on various subjects of legislation pending before the Seventieth Congress. We have given full cooperation to that committee and the tax committees of the American Bankers Association in opposition to any amendments of Section 5219, United States Revised Statutes, which have been urged by the tax commissioners in a number of states.

During the year our Division made a comprehensive survey and study of reserve requirements of state banks in the forty-eight states, and gathered valuable data which proved to be of interest to those bankers in states where the reserve requirements were unfair or out of line.

Remarkable Expressions

OUR Division has furnished the past year the chairman of the committee on regional clearinghouse associations of the Clearinghouse Section, and he has been active and thoroughly alive to the needs of the country bank for this timely help and service. We feel justly proud of the work Dan Stephens has accomplished.

We have actively cooperated with the Clearinghouse Section in the dissemination of the valuable studies and findings which the Clearinghouse Section has undertaken as the fact-finding body of the association, all important studies along the line of better and more scientific bank management. Four valuable studies of outstanding importance have been sent to our entire membership dealing with a survey of bank operating ratios, loan administration policies, profit and loss operations, and secondary reserve and security buying. Other studies are in

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Unit Banks Must Unite

By S. L. CANTLEY
Commissioner of Finance, Missouri

Preservation of the Unit System of Banking Predicated Upon Bankers of Country Presenting an United Front. Cooperation Through Clearinghouse Associations and Credit Bureaus Held Fountain Head of Guidance and Protection for Rural Bankers.

OUR major industrial and business activities, aside from banking, understand each other, and to this coordination of policies and practices are we indebted for the enviable position our country occupies commercially. The protective policies of this nation, plus the business acumen of our people, have worked together harmoniously.

Protection made available the means for organized cooperation, and the two, working most effectively together, have made this nation the envy of every other country in the world from a commercial standpoint. All other nations of the world, save possibly one, have failed at just this point.

Organization is the first word in any business venture, and cooperation is the second, if the enterprise is to succeed. This statement is incontrovertible. Not only is this true of every nationally known productive organization, but it is becoming equally true of every successful distributing agency as well. It is not enough to coordinate the productive policies but through chain stores, fruit and farm growers' cooperatives, is found the solution to profitable marketing. Organization and cooperation, or organized cooperation, are, therefore, fundamental to the commercial life of a great nation and are basically sound.

All Respond

IF this is true of the productive and distributing forces in this country, how much more should it be true of the application of money and credit, which together make possible all else commercially.

The cotton markets of the world, the corn, cattle, wheat and fruit markets, are established through organized and cooperative forces, proclaiming to all the supply, the demand and the controlling factors, and there are no duplications of effort or of substance, but all respond in an orderly manner. Organization and cooperation make possible profitable production and orderly distribution.

In 1918, came one John Jones, who had always been a practical and successful farmer, had reached out and enlarged his field of operations immensely, seemingly from earnings, but who was in reality borrowing from three other banks in the county, in large amounts, and asked of me a loan of $20,000 to buy another quarter section of land just across the fence, and I loaned it to him without a question. He bought the land which was in reality worth about $50 per acre or a total of $8,000 and everything went well for two years. He paid the interest promptly for that time and then the slump came. Things did not go so well, but John only owed $20,000 and was solvent. Some day he would pay. I did not know that three other bankers who preceded me in extending John credit and two who came after were looking to the very same holdings for liquidation, each ignorant of the other's dealings with Jones. I held on and so did Jones, but the fatal day came and when claims were filed Jones owed not only $20,000 but $120,000. He was ruined and so was I and all the rest, but who was to blame?

As Never Before

"THINGS are happening today in banking perhaps as never before and there is need for new thinking and concerted action. There was a time when the rural banker could sit down and go it alone, but he can no longer take that position. While there is much of merit in other systems, I favor unit banking, but am convinced that only through changed policies and additional safeguards, provided through organization and cooperation, can the unit bank survive."—S. L. CANTLEY.

Mortality Almost Nil

THE bankers who indulged Jones could blame none other than themselves. There are thousands of such cases that have come to light and even yet still other thousands to be divulged. Organized cooperation would have saved the banks and the Joneses. The ratio of profit to loss in banks is management, reinforced by organized cooperation as a basis for the intelligent granting of credit.

I have but to refer to our city banks, manned by good conservative bankers, and backed by a well directed clearinghouse association, as a basis for cooperative effort, plus organization. The mortality among banks thus safeguarded is almost nil. It is contended by the minority that organization cannot be successfully accomplished in rural communities. A few years ago this same argument was advanced against the farm cooperative plan of marketing, apparently a much more difficult task for accomplishment, but the success of the plan has been so well proven that the United States Government is now sponsoring this as one of the chief agencies in the newly created plan of agricultural relief.

If several thousand farmers can organize in a county, it is puerile to argue that a score or more of bankers cannot organize for relief and protection. There could be and, but for petty jealousies and lack of courage, would be organized cooperative credit bureaus or regional clearinghouse associations in every county or closely related group of counties in every agricultural state in this Union.

Floundering in the Slough

WE, like the prodigal of old, have wasted our substance in riotous business policies and practices, for which we alone are to blame. Some of us were even so nearsighted that we exchanged our birthright for a mess of pottage. Perfectly good banks stood directly across the street, in small towns, which perhaps should never have had but one bank, fronting banks that were a failure from their inception, because there was no local control through organization and because of the personnel and practices governing. I am not in sympathy with those who charge that the chief cause of bank failures in the past has been due to improperly supervised and inadequately manned state banking departments; neither do I believe that we are correct in undertaking to establish this fact by a comparison of supervision in the industrial with that of the agri-

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Regional Cooperation Pays Dividends

By W. L. BROOKS

President, Northern National Bank, Bemidji, Minnesota

Country Banks Advised to Adopt Without Delay Methods for Expanding Earnings Very Materially or They May Expect a Crisis. Practices of Regional Clearinghouse Associations Approved. Float Charge Best Way to Make Money in Banking.

THE country banker, operating under either the state or national system, is approaching a crisis. His operating costs are going higher and higher. Through laws and customs his earnings are being taken away.

Earnings of smaller national banks were cut by the Federal reserve law. State rural credit loans and Federal Land Bank loans have cut the earnings of state banks through wiping out their commissions entirely. Terrible deflation of values on top of all this has brought us to a realization of the seriousness of the situation.

Some methods, which will develop earnings very materially, must be adopted and this must be done without delay, otherwise the crisis. Even though consolidations and far-distant control continues, nevertheless there will be thousands of the smaller banks left for years to come.

Astonishing Results

REGIONAL clearinghouses may be formed very simply for the purpose of increasing earnings. Earnings and soundness are almost synonymous terms in banking as much as in any other business.

A regional clearinghouse for earnings is only another term for cooperation of competitors. Fear of your competitor and fear of your depositor are the only two reasons for not making a proper charge for a service rendered and for money loaned or money advanced on checks drawn on distant points.

The schedule of charges adopted by the Association cannot be used by an individual bank. Bankers in the county seats or the larger country towns must take the initiative. When I have given the astonishing results due entirely to the cooperation and the initiative of the Bemidji bankers I hope that men in the large towns, with the idea of large additional earnings impressed upon them, will have initiative enough to call a meeting; first of the bankers in their own town and then jointly call a meeting of the bankers in the small towns in the same trade territory. County lines or even state lines should not be considered in the adoption of the following rules and regulations, which by actual experience have proved astonishingly profitable.

Dozens of Small Charges

FIRST: we reduced our interest rate from four to three per cent, which saved us $3,000 a year. Most bankers will admit that they are paying a higher rate of interest on savings accounts or certificates than they should. In my opinion, they are wrong if they are paying interest on checking accounts at all.

Second: we earned $1,200 a year by adopting a service charge of fifty cents on balances of less than $50.

Third: there are dozens of small charges for various services. Such as 25 cents for returning a check for insufficient funds or for paying a check overdrawing an account. For drawing papers of all kinds. A proper charge for the service rendered in clerking auctions and many others.

Fourth: the almost revolutionary charge, at least for a country banker, known as the float charge.

"Do Not Be Afraid"

LET us consider each one of the three larger and more important items.

First: The reduction of interest. We did not lose 10 per cent of our interest bearing deposits. Did you ever figure this out? If you had $400,000 on which you were paying 4 per cent and reduced this rate to 3 per cent and you lost even 25 per cent of your deposits or $100,000, this would show that you are paying 7 per cent for the last $100,000. Are you smart enough to loan this last $100,000 so that it will get you more than 7 per cent?

If your bank is not liquid enough to stand a small reduction, get it that way as soon as possible and be ready to reduce when the rest of the banks are ready. Do not be afraid.

A Few Cents a Month

SECOND: The service charge. We found we had 600 checking accounts with a total of $6,600 or $11 per account and all under $50. Can you imagine keeping 25 per cent of $6,600 on hand and loaning the balance at a rate sufficient to pay even the actual cost of 600 pass books, literally thousands of check books, ledger and statement sheets, to say nothing of salaries for tellers, bookkeepers and remittance clerks?

We were told to encourage these small accounts, hoping that some day the depositor would get rich and keep a lot of money on deposit. People of small means should keep checking accounts, but they must learn to pay the bankers a few cents a month to keep their books for them.

The mercantile business and banking are similar in many ways. As an illustration: Would you like to loan money to a merchant, who told you frankly that he lost money on all of his customers who bought only a small amount, hoping that in a few years they would become rich and buy in larger quantities? This sounds ridiculous from the mercantile standpoint but what is the bank other than a mercantile business?

The Hardest to Sell

THIRD: The item of float is the most productive of earnings and is going to be the hardest to sell to bankers. As is always the case, however, the hardest thing to do brings the most valuable results.

All of the bankers in the large cities know full well what the float charge is and what wonderful earnings it produces. I imagine that there are many country bankers who would not know how to figure a float charge.

I state two specific cases. Our clearinghouse charges five cents for an out of town item of $25 or less than 6 per cent per annum for the number of days the larger items are outstanding.

In the case of the five cent item, if our customer either cashes or deposits a check of $25, we will give him $24.95 in money or else credit for this amount, whichever he prefers. He should be glad to get this instead of having to write a letter, spend three cents for postage and stationery and wait two days or more for the money. This will apply to all the smaller items regardless of the distance. These five and ten cent items constitute 80 per cent of the earnings.

All auditors and statisticians agree

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Unit Banking Best for Agriculture

By M. PLIN BEEBE
President, Bank of Ipswich, Ipswich, South Dakota

American Farmers are Pictured as an Individualistic Class. To Promote Their Best Welfare Bankers With Whom They Trust Their Money and Confidence Must Necessarily Be of the Same Class is Claimed. Unit Banks Said to Serve Community Best.

SINCE the deflation following the World War the bank situation has been a live topic in agricultural sections. Politicians desiring the favor of the voters have pounced upon it with little thought of the consequences, their sole desire being an issue. Men who should have known better have made it a matter of open discussion.

Unwittingly, those who sincerely believe another system of banking has more merit, have placed the unit system on trial without the formality of an indictment. They have not stopped there but have unconsciously constituted themselves judges, prosecuting attorneys and juries, and are now endeavoring to crystallize public opinion in favor of new systems of banking.

This has not been done maliciously or with any studied attempt to destroy the unit system. The bankers who are proponents of the other plans are men of the highest calibre, whose banking ethics, ability as bankers and sincerity of purpose cannot be questioned. They are taking the public into their confidence. Every move is above board and they are following scrupulously the high standards of business ethics of 1929.

Stood the Acid Test

CHANGING bank correspondents in times of financial stringency is like changing horses in the middle of the stream. There are too many chances of somebody getting wet. Likewise, it might be advisable not to be in too much of a hurry to discard a system which has stood the acid test of time since the foundation of the Republic, just because in the popular mind it has not stood up 100 per cent in agricultural sections during the post war period.

We who live in the agricultural sections have not forgotten being forced to sell our Liberty Bonds for some 80 cents on the dollar and no one has suggested a change in the form of the government on that account. If banks in the industrial sections had suffered the deflation that banks in the agricultural sections suffered—well—some people remember the year 1893. As the saying goes, "why talk about that." Also, many banks in industrial sections have not forgotten the deflation in their stocks and bonds at the close of the World War. They will say it was an economic condition. Keen students will now say that it was not because of too many small banks or our system of banking but was simply a condition that apparently no one person or group could control.

A Federal Reserve System was created solely for that purpose. Still having at its command the vast resources and powers of its twelve banks and twenty-six branches in strategic locations all over the United States the mortality among its own children was only slightly less in proportion to numbers than that of those under state supervision. In fact, the whole Federal Reserve System is in nowise a unit system of banking but the reverse. If this organization, under supervision of our government, could not meet the crisis no one should be too hasty in condemning any other system.

Two Distinct Things

IT is the popular thing to follow the new and discard the old. Speaking of unit banks, there are some operating under state charter that stand absolutely alone with no other resources than their assets and individuality, while others having national charters are linked up with the Federal Reserve System originated solely to abolish money panics from the financial map.

Banking in an agricultural section and in an industrial section or a city are two distinct things. With aid of a tariff wall and a pay roll the industrial banker can figure fairly closely. The agricultural banker has no pay roll to count on each week but if the cotton, wheat or corn crop is good and the price fair his pay roll comes in a lump and deposits skyrocket. If crops and prices are poor he is forced to carry his customers over for another year.

This mode is fast changing as farmers also are diversifying but in a measure this condition will continue to exist. The agricultural banker has many unforeseen things to contend with. In Florida the Mediterranean fly has appeared, in the cotton fields they have boll weevil, in the eastern corn belt the corn borer, in the grain belt this fall they were facing an embargo on grain which, in the height of threshing time drove the price of barley in my home town to 36 cents per bushel. Coupled with this so-called alleged need of an embargo which has fooled no one came the urgent advice of grain commission men to local elevators not to store grain. This advice was generally followed by elevators, so farmers without storage capacity and with obligations to meet were forced to accept the low price per bushel in face of a world's shortage in grain crop.

Siphoning Credit

COUNTRY banks were most willing to loan money on storage checks but were helpless to stop the dumping of grain by refusal of elevators to issue storage checks. To conduct a successful bank under such conditions calls for the highest type of individuality. This is where the other plans of banking make the sparks fly claiming that the allocation of credits is of prime necessity. Theoretically they are correct. From a practical point of view there is chance for discussion.

The siphoning of credit from one section to another is a great theory if it were not for the fact that every so often somebody comes along and cuts the pipe. To illustrate, only twenty-five years ago Canada had thirty-five parent banks. Today it has, through failures and mergers, eleven, a loss of 75 per cent. Great Britain's banking history is practically the same. But why go to foreign countries. How about the recent event in New Jersey and the debacle of Florida and Georgia where unfortunately both of two forms of banking now in the public eye were hopelessly enmeshed.

In 1925 Mr. Bennett, Superintendent of Banks for Georgia, made certain recommendations to the Legislature to stop the siphoning of certain lines of credits from one bank to another, showing quite clearly he was aware of the situation or saw dangers of embarrassment. Owing to determined opposition of the bankers his bill never was reported out of the committee.

Jackson Vetoed the Bill

THIS reminds me of a similar situation which confronted our forebears 100 years ago when the charter of the United States Bank expired. The bank had branches in all of the states and leading cities. It had a world of influence and power which it apparently did not fail to build up and utilize. Congress had passed a bill to renew the charter but President Jackson saw the danger of a bank with many branches scattered over the Union.

Andrew Biddle, unable to change the

views of the President, informed him that the bank could name the Governor of any state and could, by its power and influence, name the President of the United States. The President replied:

"If the United States Bank has all the power you say it has then it has more power than anything in a free country ought to have and, by the living eternal, it shall be destroyed."

It is needless to say that he promptly vetoed the bill for the renewal of the charter and based his campaign for election on that single act. In the convention he was the victor four to one over Henry Clay. The record shows that in the next sixteen months the bank increased its loans 66 per cent although being well aware that the government expected to make large withdrawals to meet its obligations. The President said, "The motive of this enormous extension of loans can no longer be doubted. It was unquestionably to gain power in the country and force the government, through the influence of the debtors, to grant a new charter."

Plenty of Ammunition

THE American people are no different today than they were in President Jackson's time. Wide ownership of stock and educational propaganda will not save the new fast growing plans of banking if they are not scrupulously true to their trust and do not start dictating politics. If they do, they will promptly and most efficiently be taken care of by the voters, after the politicians have had their innings. Bankers should not overlook the fact that "issues" in politics are becoming scarce as "hens teeth" and that only way you can tell the difference between a Republican and Democrat these days is to study his family tree.

Unit bankers have no need to fear that they will be forced out of business as long as they run a clean bank and hold their individuality in their community. Business ethics of 1929 will not allow any unfair advantage to be taken, but if competition should become too keen the unit state bank can take advantage of the Federal Reserve System, and the politicians will do the rest.

Plenty of ammunition is being manufactured now every day. The unit bank will always have a definite place in industrial and large reserve centers and if things get too tough a little organizing will remedy matters most effectively. The unit bank in agricultural sections has a definite place. The farmer is individualistic and so should be the bank, in order to meet any of the emergencies that may arise from such an individualistic class of customers. The banker closest to the farmer in agricultural districts is by far the best equipped to give service to those living in the districts, simply because it is a hand to hand proposition. They cannot be successfully and efficiently taken care of through a book of rules.

A unit bank is more than a cog in the local machinery. It pays taxes on its capital and surplus; its employees have an inducement to buy their own homes and make permanent investments in their community; dividends earned are distributed and reinvested and not sent to some far off city to build up other centers at possibly the expense of the one in which the dividends were earned. There is also the local pride in home institutions, a most marked characteristic of the American people.

Last year I travelled over the Canadian grain belt from West to East and last month from South to North. I was astounded that this vast agricultural empire is being farmed with implements made in the United States, and found American automobiles everywhere. Why is not Canada building its own farm machinery and automobiles and why is it not, generally speaking, the great industrial nation that we are today? The answer, in a measure, is very simple.

Years ago some man formulated an idea to build a certain machine. He went to his unit banker and not only received encouragement, but help. Out of this grew these industries of staggering wealth and volume of business, all due to the community interest. This could hardly be done under the Canadian system as it is too cumbersome and on its face, too conservative, but its record on the whole since 1904 shows that its conservatism apparently lies mostly in the managers of its banks. No matter how keen or clever a banker may be he does not get the perspective of his customers unless he has the environment. This is the strongest point of unit banking.

Ordered Not to Loan

A BOARD of directors sitting 1000 miles away cannot properly gage the demands to finance the movement of a Kansas wheat crop when they have been no closer to a wheat field than the bread they eat. This is especially so when they have just loaned their trust company a few millions to buy an issue of bonds which were bought at a profit and are to be sold at another profit.

With unit banking when money is close it is because it is tight at home. But under the other plans money can be tight in some distant city and immediately this reflects on the prosperity of some community which is in most excellent financial condition.

I will never forget being some fifteen years ago in a country bank which was one of a number operated from a distant city. A mighty fine looking young farmer came in and wanted to get $25 for twine to harvest his crop. The loan was refused. The applicant was embarrassed and chagrined, and when he got hold of himself he said:

"You know twine is cash this year. When I sold my grain and paid you what you desired I had every reason to believe you would assist me in my harvest expenses as you had before. You have had my business since you opened up here and I am asking for $25 and not $250. I am in a position to secure you if you believe it necessary."

The banker merely replied, "We are not loaning anything now."

As the farmer left the banker turned to me and said, "I received orders today not to loan anything. We have plenty of money and conditions are good here."

It is needless to add that this bank and its brothers were among the first to go when the post-war deflation came to agriculture.

A Wonderful Combination

A UNIT bank can be as safe as any other in agricultural sections. Its interest rates are higher and it is in a position to make side money in writing insurance, negotiating farm loans, and so forth. While it is true its chances of recuperating from its losses caused by error of judgment are less than those of a larger bank, it does not have the opportunity to have the losses which run into large sums in larger banks.

Home officers and home capital make a wonderful combination for the advancement and growth of a city or town. Then you have the personal and moral responsibility of the stockholders and officers to the public which is in a degree absent in other forms of banking.

When it is all said and done, since the year one, some person has been advancing some new idea that is going to make something foolproof. In many cases such a person has been successful, but in the final analysis it is simply a case of the survival of the fittest added to the old adage that every tub must stand on its own bottom. This has always been true and will continue to the end. There is no shortcut or theory devised to avoid this law or the adage.

American farmers have always been and will always be, unless reduced to peasantry, an individualistic class. To promote their best welfare the bankers with whom they trust their money and their confidences must necessarily be of the same class. This is spelled only in unit banking.

Which System is Best?

WHILE on my recent visit to Canada I called on a bank in a town of about 1000 people. The manager's book of instructions contained 141 pages which did not include the supplements for thirteen years. This bank is located in an old, settled, farming community with farms well improved. Its deposits are $400,000 of which $300,000 was loaned to the parent bank in eastern Canada and $100,000 in its banking territory.

I could not help but compare this town with one down in the states which has practically the same population and territory but not such good farming land and where crops are not so certain. This town has two banks with deposits of over $1,200,000. Its territory is alive with hogs, cows and chickens. Every Saturday from one to five cars of live stock leave it, to say nothing of grain and long strings of cream cans. The banks stand willing to loan to their customers, whether or not they are landowners, money to buy milk cows and hogs and to the farmers' wives to buy

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1,000,000 Shares

The Lehman Corporation

Capital Stock

CAPITALIZATION

	Authorized	Presently to be issued
Capital Stock (No Par Value)	5,000,000 Shares	1,000,000 Shares

ORGANIZATION

The Lehman Corporation has been organized by the firm of Lehman Brothers under the laws of Delaware to engage in certain financial activities and in a wide range of investment and other activities.

The Corporation will receive $100,000,000 in cash after all expenses as the proceeds of the sale of the 1,000,000 shares of Capital Stock presently to be issued. One hundred thousand of these shares will be purchased by the firm and the partners of Lehman Brothers for their own account for $10,000,000 cash. No options or warrants on Capital Stock will be outstanding upon completion of this financing.

All of the shares of Capital Stock authorized and presently to be issued are identical as to voting, dividend, and other rights, and carry no preemptive rights. The firm of Lehman Brothers may, and it is intended that it shall, deal freely with the Corporation.

MANAGEMENT AGREEMENT

The Corporation will enter into a Management Agreement with the firm of Lehman Brothers under which the firm shall be entitled to receive semi-annually 12½% of the net realized profits of the Corporation. The firm will, upon receipt, use this compensation to purchase from the Corporation common stock taken at its book value per share (as defined in the Agreement).

Such compensation shall be paid only to the extent that the net realized profits of the semi-annual period then terminated shall exceed a sum equivalent to (1) 6% per annum upon the invested capital (as defined in the Agreement) for the period, plus (2) any deficiency in net profits of any prior period below 6% per annum upon the invested capital. The payment of any balance of compensation shall be deferred and added to the compensation payable for succeeding periods.

Unrealized profits will not be taken into consideration in determining the above-mentioned compensation or the book value of common stock purchased; but upon the termination of the Agreement the firm will receive 12½% of the unrealized profits (subject to certain deductions as set forth in the Agreement) and, out of the remainder of such unrealized profits, any balance of compensation the payment of which may have been deferred. The firm may, at its option, apply such final compensation to the purchase of common stock on the basis above mentioned.

DIRECTORATE

The initial Board of Directors and officers of the Corporation will consist of partners of the firm of Lehman Brothers and certain of its staff. No partner of the firm of Lehman Brothers will be entitled to any compensation as a member of the Board of Directors or as an officer of the Corporation. Upon the termination of the Agreement, or if a director is elected to the Board of Directors of the Corporation without the approval of Lehman Brothers, the latter may require the Corporation to change its name so as to eliminate all reference to Lehman Brothers, and upon the election of such director without the approval of that firm the Agreement may be terminated.

The above is subject to the provisions of the Certificate of Incorporation and the Management Agreement, copies of which may be obtained from the undersigned upon request.

Price $104 Per Share

This offering is made subject to allotment or prior sale, and in all respects when, as and if issued and accepted by us and subject to the approval of counsel. It is expected that delivery of temporary stock certificates will be made on or about September 24, 1929 at the office of LEHMAN BROTHERS, One William Street, New York, N. Y., against payment in New York funds.

LEHMAN BROTHERS

Group Banking Adapted to Agricultural Needs

By E. G. BENNETT

Vice-President, First Securities Corporation, Ogden, Utah

It Preserves Individualism, the Quality That Built the Nation. Gives the Small Institution the Benefits of Specialization. Plays a Logical Part in Banking Evolution in Reconciling the Country and the Metropolitan Point of View. Pyramiding of Reserves.

COUNTRY banking is relatively more important from the standpoint of national welfare than its volume indicates. This country is fast becoming industrialized with centralization of population and wealth. In any severe relapse in business resulting in unemployment we must look to the agricultural sections to support conservative government. The farmer is a capitalist, an individualist, with the inherent urge to protect property rights. So that in this rapid shifting of wealth, as we measure it in dollars, to industrial activities, we must keep in mind the value, nationally speaking, of our rural communities.

Individualism has accounted for the success of this nation and it must not be lost sight of in the present trend toward socialization of business. Banking, particularly country banking, has been extremely individualistic. Mass production, mass distribution, have revolutionized the creation and distribution of the necessities and luxuries of life. This development, because of its vastness, has made necessary definite and accurate knowledge of the causes and effects of the activities creating it, otherwise it could not be sustained. But in recounting results we do not want to overlook the goose that laid the golden egg—individualism. While this trend in business development apparently smacks of a stifling of individualism, there is no need that such may be the effect if the human element is ever kept judiciously before us. The greatest security to individualism is that the public thought keeps pace with our inventions and our business development.

Has It Stood the Test?

IN this connection one cannot refrain at least from speculating upon the present country bank situation. Has it kept pace with other developments in science, in merchandising, in transportation, etc.? How are we to account for the 5000 bank failures in the past ten years? Country banks have never really as a class stood the test in our national banking history. During this period from which we have just emerged, city bank failures have been negligible. City banking has withstood our periods of inflation and depression, and do not we as country bankers have something to learn from it? Why have country banks been unable to stand the test? Two principal reasons, as compared with the city or metropolitan banking institution—management and lack of diversification. Management may be further subdivided as respects the comparison of the country unit bank with the metropolitan bank, and that is the lack of perpetuity of successful management in the smaller institutions. By these general remarks it is not meant to reflect upon the country unit banker; as a matter of fact, undoubtedly some of the ablest banking minds in the country today are country unit bankers. However, judging it as a class, and other things being equal, isn't it logical to suppose that ability gravitates to the greatest positions of responsibility? And what guaranty is there of perpetuity of management in the small unit bank?—much less than in the larger institution representing extensive proprietorship holdings and with more to offer to successful management.

Difficult Banking

COUNTRY banking is the most difficult banking. The country banker is a neighbor to his borrower. The country banker has to depend upon a restricted limited range of productive activities. His public is more exacting, requires and expects more in the way of personal banking service. He must meet all situations. He cannot be content with specialization, but in his banking business he is in need almost as much as the city banker of the services of the financial specialist. Business is becoming more intricate and complicated and country banks have difficulty, through necessary limitation of overhead expenditures, in providing the various facilities and services necessary to meet the banking needs of the public.

The country bank depends upon either the Federal reserve bank or a city bank correspondent for credit needs. In normal times, with the concentration of wealth in metropolitan points, city banks find it necessary to go to the outlying districts for the employment of certain of their funds. They depend upon country bank correspondents that may or may not be desirous of unloading something. When they loan directly in the outlying districts, oftentimes their judgment is not of the best, as the average city banker is accustomed to dealing in large figures with large earning capacities, while the country borrowers' capacity to pay is surrounded by certain definite limitations. When funds are plentiful the city banker is inclined to force them either directly or indirectly upon the outlying districts, but being excess funds they are immediately recalled when money conditions tighten, with the result that the outlying districts are more than harmed. The city banker overlooks the fact that there is a certain sluggishness in the action of credit in the country districts as compared with that in the ordinary borrowing clientèle of the city. On the part of the city banker there is often a dearth of sympathy and discipline in connection with country credits. Discipline must be exercised when money is plentiful and sympathy must be extended when liquidation is necessary.

THE fact that country banking has had such a bad record is not due alone to country banking—it is because it has had to take up the slack in all financial depressions. It has been illogically separated from the source of the nation's financial reserves. Money and credits flow through all the activities of the human race and all finance is so interrelated that it cannot be well separated. Banking is a national institution; its greatest strength, its greatest influence, its dominance is in the money centers of the country, and it is unfair to the citizenry of the rural communities that they be cast off from the main reservoirs of finance in times of depression. Country banking should be an inseparable part of our national banking structure. The rural district will thereby be better protected because service to it is then a part of the responsibility of the general banking picture and investments may be made therein with greater safety because of the closer contact, more thorough understanding, and control and influence had over its local financial policies. Regardless of our own wishes as

(*Continued on page* 430)

WHAT could reflect the stability of a bank quite so faithfully as handsome interior equipment of indestructible steel!

GF has a special department that applies itself exclusively to designing, manufacturing and installing Allsteel furniture for counting room, cages and offices.

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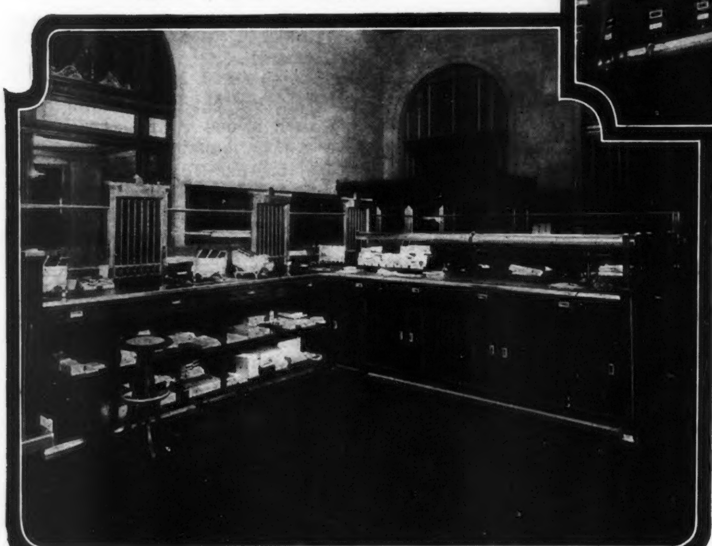

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Agriculture Needs Branch Banking

BY CLYDE HENDRIX
President, Tennessee Valley Bank, Decatur, Ala.

Limited Branch Banking Called Best for Farming Communities. Advantages Seen in Safety and Service Possible Through the Mobilization of Resources of Branch System to Meet Demands of Depositors for Funds or Credit Requirements of Farmers.

AGRICULTURE, as a rule, is served by banks located in the smaller towns and communities. In most instances, the volume of business in such localities is not sufficient to support a local or independent bank with more capital paid in than the minimum prescribed by law. This type of bank, be it altogether independent or operating as one of a group, cannot serve the community as efficiently and as satisfactorily as is being done by the branch bank.

Perhaps the most important function of a bank is that of providing a safe depository for its customers. This is particularly true in agricultural sections, for if a bank closes in the spring or summer the farmer is prevented from making his crop; and if it closes in the fall, the farmer's money is tied up with nothing coming in for another twelve months. So, it is apparent that the first consideration of the farmer is the safety of his bank.

Affords Safest Depository

LIMITED branch banking affords the small community the safest depository. I need only allude to the records to substantiate this claim. Every banker is acquainted with the appalling mortality record of the small unit banks located in purely agricultural territory. No doubt that lack of proper management and dishonesty accounts for a small percentage of such failures, but in the main the wholesale, colossal number of small bank failures can properly be chargeable to the system itself.

Having limited capital, little or no credit with correspondent banks, with no affiliated bank to lean upon and with no diversity of loans—when there occurs a shortage or failure of crops, or when farm products are extremely low in price, it is inevitable that such banks under such conditions must close their doors. A larger and stronger unit bank would not be profitable at such location. Therefore, the most logical way to provide a safe depository for such community is through the medium of the branch bank.

To illustrate: I know of a system of branch banks which has been operating in a number of small agricultural towns for the past thirty-seven years. During that time quite a number of small unit banks in that section, both state and national, have failed. In the majority of cases, had these banks been branches of that system they would be open today.

There Came a Slump

AS an example, there was one bank with $15,000 paid in capital. Its cashier was active and built up its deposits to about $125,000. For quite a while there was little or no local demand, hence little profit; but eventually demand came and the cashier, eager to make profits as well as to extend the bank's business to a wider circle of customers, loaned rather freely until the bank's funds were pretty well invested.

Then, there came a slump in deposits. Collections could not be made, since all loans ran until fall. Their correspondent banks loaned them liberally, but deposits continued to decrease, until finally the bank had to close its doors. Not that the bank was insolvent, nor that their paper was frozen in the sense this term is generally used, but because their depositors as well as their borrowers were all farmers—and there was not enough farmers' deposits in the community to carry the farmers' loans. At the same time, there were branch banks operating in nearby towns, only a few miles distance, which continued to function, taking care of all desirable business that was offered.

There are many instances where small banks have had to close because of a run on the bank resulting from the suspension of a nearby bank, the defalcations of a bank officer or employee or some unfavorable rumor in the community. A branch bank, under such circumstances can readily and quickly mobilize a sufficient amount of funds with which to pay every local depositor, supplying same from its own banks, which is impossible for any but a branch banking system to do.

Funds Flow Back

THE unit bank is dependent on local deposits for its lending funds; it is dependent, likewise, on local demand for loans to employ its funds. When crops are harvested collections are made and deposits increase, but there is little demand for money. When spring comes deposits begin to decline while at the same time loans begin to increase at about the same ratio. Since practically all depositors are either farmers or are dependent on agriculture, the local bank finds its deposits down just at a time when loans are most sought and needed with the result that it cannot take care of the legitimate needs of its customers. Where a branch bank is serving such a community the funds accumulating in the fall are put to use at other branches where there is demand; and when deposits decline and loans are in demand these funds flow back to the branch, and during crop-making season are supplemented, if need be, in order that all worthy applicants for loans may be supplied.

To illustrate: I have in mind a branch banking system with several branches located in very small towns in the cotton belt. Just now these branches are collecting funds and deposits are increasing, with no local demand. This same bank has offices where cotton is being concentrated. These excess funds from the small branches are being profitably used by lending to dealers and merchants during the fall and winter months. By early spring the cotton will have been marketed and the proceeds will be available in ample time for use at the branches in making another crop. Meantime, the cotton merchants carry substantial summer balances with the branches at concentration points, which further aids the bank in supplementing local funds at the smaller branches.

Again, there are the more substantial farmers and local merchants whose business is profitable and highly desirable whose borrowing requirements are in excess of what the local unit bank can legally or prudently supply. The branch bank, with ample capital resources, can properly handle all such acounts which otherwise would be driven to the larger banking centers to the inconvenience of the customer and to the disadvantage of the community.

In Case of Distress

THE group plan has some advantages over the unit bank, in that it provides for a certain amount of cooperation between the affiliated members. But it falls far short of the branch bank in many respects. In the group plan, as with the unit bank, there is no capital strength beyond the amount of capital investment of the local unit. In case of distress on the part of a member the other affiliated members have no right, even if they so desired, to contribute a single penny to save it from disaster.

(*Continued on page* 433)

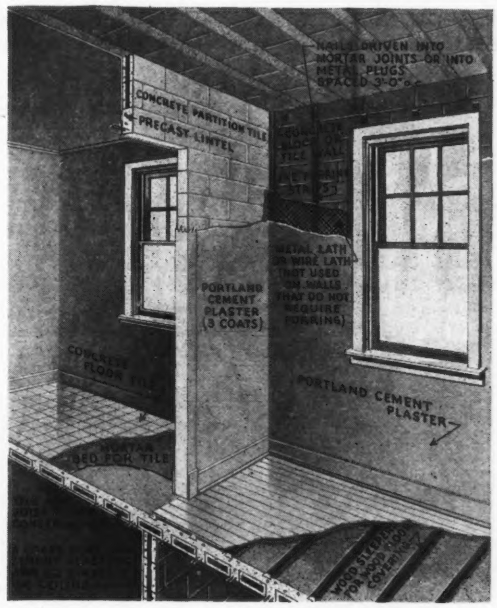
long and 8 in wide, with height ranging from 3½in. to 5 in., as desired. Each unit is molded to *accurate dimensions.*

The hollow wall characteristic of concrete masonry is responsible for a large share of its popularity as a building material. This dead air space in the block or tile effectively insulates the wall. Extremes of temperature do not easily penetrate this space, nor does sound or moisture.

Another advantage of concrete masonry is rapid construction. The large, uniform-sized units require minimum handling. Walls go up quickly—and any labor economy is always welcome to the home builder.

Whether the house planned be large or small, these advantages of concrete masonry are equally in evidence. Concrete masonry creates an atmosphere of substantial dignity by which the good judgment and character of owners may safely be measured. It is fire-resistive and permanent. Upkeep expense is practically nil. And along with its economy it adapts itself to the widest range of beauty in architectural treatment.

In many instances the wall is treated frankly as a masonry wall, with the mortar joints visible. This



This diagram shows the details of concrete masonry wall and floor construction in a firesafe home

treatment is very pleasing when in complete harmony with the architectural motif.

A wide range of exterior finishes is at the builder's option, through the variety of color and texture available with portland cement stucco. Concrete masonry walls form an ideal base for the stucco, the surface of concrete block and tile being sufficiently rough to assure a perfect bond. In fact, so closely does the stucco unite with the masonry that it is practically impossible to separate the two materials. These advantages have created a growing preference for portland cement stucco as an exterior finish.

Portland cement stucco mellows, with time, into the soft tones so greatly admired in structures abroad. Or, with the use of different pigments, it remains gay and colorful year after year. Pleasing reds, blues, yellows, greens, browns—for accent or contrast—or numerous soft tints, all can be produced by the use of non-fading mineral pigments. The result is a permanently beautiful house, charmingly blended in texture and color to harmonize with its surroundings.

Before you build get all the facts about concrete masonry. Write for our illustrated literature on this interesting subject.

This illustration shows the successive coats of stucco applied to a concrete masonry wall. To a concrete masonry wall (A in the picture) is applied a "scratch coat" (B) ⅜" thick. After this coat hardens a second coat (C), also ⅜" thick, is applied. The finish coat (D), ⅛" to ⅜" thick, depending on texture, is applied after the second coat has hardened.

A S S O C I A T I O N *Chicago*

. . . A N D F I R E S A F E T Y

The State Secretaries Section

Many and Varied Activities of State Secretaries in Behalf of Banking Throughout the Country Reviewed. Services Given Cordial Appreciation by Heads of Association. Seriousness of Bank Tax Situation Recognized. Plans for Protection Made.

THE annual meeting of the State Secretaries Section was called to order by President Frank Warner, of Iowa, on Tuesday afternoon, October 1. At the opening of the meeting a cane was presented to Robert E. Wait, of Arkansas, as a token of friendship of the Section as a recognition of services performed.

M. A. Graettinger, of Illinois, was elected President of the Section for the coming year; H. Grady Huddleston, of Tennessee, First Vice-President, and Paul P. Brown, of North Carolina, Second Vice-President.

The board of control was formed of the following: M. A. Graettinger, H. Grady Huddleston, Paul P. Brown, Frank Warner, and W. G. Coapman, of Wisconsin.

Comprehensive Reports

A SERIES of reports covering a comprehensive program of activity in the interest of banking were submitted by the chairman of various committees of the Section. In most cases the reports were followed by pertinent duscussions of facts disclosed.

The bank taxation situation was discussed by J. W. Brislawn, of Washington. Miss Forba McDaniel, of Indiana, reported on more active country bankers associations. Bank insurance rates were analyzed by Eugene P. Gum, of Oklahoma. Mr. Graettinger described methods of protection against bank robbers, burglars and defrauders.

Other reports were: Public education, C. F. Zimmerman, Pennsylvania; coordinating earnings, expenses and dividends, C. H. Mylander, Ohio; district interstate conferences, W. A. Philpott, Jr., Texas; efficiency experts for non-city banks, Henry S. Johnson, South Carolina; greater earning power for non-city banks, Mrs. Margaret Barnes, New Mexico; resident bank examiners, W. B. Hughes, Nebraska; town, country and district credit bureaus, W. G. Coapman, Wisconsin; licensing of bankers, W. W. Bowman, Kansas; and American Institute of Banking, Robert E. Wait, Arkansas.

Short addresses were delivered to the Section by both Craig B. Hazlewood, President of the American Bankers Association and Rome C. Stephenson, Second Vice-President of the Association.

M. A. Graettinger,

Secretary Illinois Bankers Association, Chicago. Incoming President State Secretaries Section, American Bankers Association

"I sometimes think," said Mr. Hazlewood, "that the job of an efficient secretary—the kind that is referred to in the annual report, you know—must be quite some job to fill. Think of all the human elements that you have to deal with. Think of all the, shall we say, cranky dispositions. Think of all the private ambitions that you encounter in the gentlemen who have notions of political preferments, which you may not interfere with. Think of the well-grounded conviction you have in your own minds that you could make a presentation infinitely better than that president who is making it at the moment before your convention. Think of your feeling of dismay at such badly bungled handling of some proposition or other that you know right well you could work out to such a successful conclusion.

"I say the job of being an efficient and personable and well-liked secretary strikes me as being quite an undertaking. And that is just said by way of personal comment and has nothing to do whatever with the American Bankers Association.

Real Cooperation

FROM the standpoint of the American Bankers Association we do sincerely appreciate the fine support that we get out of the State Secretaries. They have their own troubles. They have their own problems. And yet we find in almost every case a very fine spirit of real cooperation—not just conversation, but real cooperation. They are glad to have their banks who belong to their own associations belong to the American Bankers Association as well, and I think probably that they are smart in that. I think all banks ought to belong to the state association and to the American Bankers Association for the varying results that they may get from each—the consideration of what might be called local problems, as well as national problems. It makes a well-rounded out organization.

"So I for my part want to express appreciation for that cooperation of the past year on your part which has been very real and sincere and to wish you in your several capacities at the helm of your several organizations much success during the coming year."

Love of the Work

FOLLOWING President Hazlewood, Mr. Stephenson said:

"The Secretaries are continually stimulating the membership of the large associations and you are helpful in a num-

(*Continued on page* 427)

Resolutions of 55th Convention

F. M. LAW, vice-president of the First National Bank of Houston, Tex., as Chairman of the Resolutions Committee of the 55th Annual Convention of the Association presented the following resolutions at the last general session and they were unanimously adopted:

Agriculture

AGRICULTURE is undergoing fundamental changes with the introduction of scientific methods, and the industry is showing much improvement. In a large measure, the prosperity of many members of this association is dependent upon good conditions in the agricultural industry. We commend the widespread educational program which is being participated in by universities, colleges of agriculture, state bankers associations and by the agricultural commission of this association. The enactment of Federal legislation, providing for a farm board with broad responsibilities, is observed with interest by the association, and we hope that, through this agency, sound economic policies may be developed which will be of practical benefit in the stabilization and advancement of this basic industry. We express confidence in the farm board, and we believe, if given ample time for its deliberations, that its work affords an opportunity for the development of measures of great importance to the general welfare of the country.

Credit Situation

THE credit situation in the United States while fundamentally sound is attended with many new problems due to comparatively recent changes in various important methods of financing industry and commerce. Hand-to-mouth buying has resulted in reduced inventories all along the industrial line. This has been followed by falling commodity prices, but increased production and increased total earnings, and a smaller capital requirement for the same production, which is evidenced by a falling off in the relative amount of money used for commercial purposes while the actual total has been increasing. On the other hand, installment buying has required increased financing that represents a call upon future earnings of the buying public.

Industries have been financing working capital more and more through the issuance of securities, first through bonds and stocks and during the last two years increasingly through stocks. This has resulted in a slower growth of commercial bank loans and a more rapid growth of loans against securities together with the holding of idle funds periodically by many industries.

This change in financing has created more securities and has led industries to use funds received from the issuance of long time obligations in the stock market.

Expanding business and increasing prosperity, together with greater available funds for use in carrying stocks, have attracted a vast public both domestic and foreign into our stock market. As stock prices have risen, greater margins have been demanded, and bankers have followed the changing situation with the utmost solicitude.

The combined result of these new movements seems to be reflected in the increasing proportion that loans against securities bear to the whole credit structure. But to a certain extent such loans indirectly carry industrial and commercial enterprises whose needs were formerly cared for by bankers through commercial loans. Many of these developments are sound, but it must be borne in mind that changing psychologies create new problems and bankers must be ready to meet them.

The total of so-called brokers loans as now given publicity weekly and monthly is a spectacular figure, whereas it should be a scientific figure.

As a spectacular figure it leads to stock market fluctuations that are unsound and detrimental to the public good and also to threats of financial legislation which if carried out might be even more harmful.

The development of brokers loans during the last few years is a phenomenon attending our growing prosperity that was neither premeditated nor anticipated and that is not yet thoroughly understood.

It is important that the situation created by the growing total of brokers loans be carefully studied, not through public investigation, which is again spectacular and unavoidably so, but on the basis of scientific research carried on quietly by those competent to get at the facts, evaluate them and recommend and put into force such changes in procedure, if any, as may be for the public good.

The American Bankers Association, therefore, believes that the Federal Reserve System, in cooperation with American bankers and stock exchange authorities, should take up this matter at once, ascertain all underlying facts in connection with brokers loans, study the possibility of effecting greater stabilization of the money rate, and then introduce such changes in procedure as may be found advisable.

Taxation

WHEREAS, there are now pending before the Congress of the United States various bills seeking to amend the ad valorem provisions of Section 5219 of the U. S. Revised Statutes, the effect of which would deprive banking associations of the protection from discriminatory state taxation which is assured under the provisions of this section as they now obtain, and

Whereas, such proposed legislation if enacted into law would mean the surrender of the basic principle that the stock of national banks shall not be taxed at a rate greater than that imposed upon competing moneyed capital in the hands of individual citizens, a protection which was provided by the Congress within a year after the creation of a system of national banks and which principle has continued inviolate, and

Whereas, national banks are, and have been since 1863, agencies of the National Government, and are now clothed with additional responsibility and functions as the only compulsory members of the Federal Reserve System, and as such the protection from discriminatory taxation by the states is imperative, and

Whereas, there is no disposition on the part of the banks to avoid the payment of their fair proportion of state and local taxes and to that end they have joined with the Congress in keeping pace with modern fiscal tendencies by fostering income taxation or excise taxes, as alternatives to the tax on the shares of national banks, and inasmuch as Massachusetts, New York, Wisconsin, California, Oregon and Washington have by adopting one or the other of these alternatives demonstrated that it is feasible for the states to enact equitable and adequate taxation laws which are not in violation of the protective principles of Section 5219, and

Whereas, the protection of the long established principles of this section inures not only to national banks, but in a large measure to state banks, and, therefore, any impeachment of the integrity of this protection is of grave concern to all banking institutions,

Now, therefore, be it resolved, that this association reaffirm the resolution adopted by it in 1928 at its annual convention held at Philadelphia, Pa., and that it hereby declare its opposition to any amendment to Section 5219 that might tend to infringe upon the integrity of the protective principles thereof, and that its Special Committee on Section 5219 be, and it hereby is, instructed and directed to carry out the purpose of this resolution.

Banking Trends

WHEREAS new economic forces are actively at work which are vitally affecting our present banking systems, both national and state, and the trend toward group and chain banking is a matter of vital concern and of far reaching importance to national and state bankers alike, and, whereas suggestions have been made looking toward an extension of branch banking in the National Banking System and the Comp-

(*Continued on page* 394)

School Savings Banking Expands

UNINTERRUPTED expansion of school savings banking throughout the United States is reported by the Savings Bank Division of the American Bankers Association. Below is a summary of school savings by states with comparative figures for the last two years.

Analyzing the school savings situation W. Espey Albig, Deputy Manager of the Savings Bank Division, said:

"The statistical report for the school year 1928-1929 shows a gain all along the line. The number of schools having School Savings has increased by 1762, or 12.7 per cent. The pupils enrolled in schools affording an opportunity for School Savings increased 262,974, or 6.6 per cent; and 242,698, or 5.7 per cent, more pupils participated than during the preceding year. The deposits during the year reached the colossal figure of $28,672,496.00, a gain of 10.3 per cent; and the net savings at the close of the year, which means the amount of the year's deposits remaining in the bank at the close of the school year, is $10,539,928.46, a gain of 11.2 per cent.

"If to the amount of the School Savings deposited in the banks this year and remaining at the end of the term is added the School Savings of the present pupils in former years and yet remaining in the banks, the total bank balances are in excess of 50 million dollars.

"After all, the millions of dollars saved, important as it is, constitutes only a yardstick in measuring the growth of understanding in the use of money.

"Says one banker: 'School children who formerly needed support are now buying their own books and clothes, showing how money systematically saved brings self-supporting students.'

"Other bankers speak of the 'investments' made by pupils from their school deposits.

"The one great plague afflicting School Savings is that familiar to banks doing a savings business everywhere—that of too great withdrawals. If it is not conquered, there is grave danger that it may destroy the whole fabric of School Savings."

SUMMARY AND COMPARISON

1927-1928 and 1928-1929

STATES	Number of Schools		Number Participating		Deposits		Net Savings	
	1927–28	1928–29	1927–28	1928–29	1927–28	1928–29	1927–28	1928–29
UNITED STATES	13,835	15,597½	3,980,237	4,222,935	$26,005,138.04	$28,672,496.00	$9,476,391.32	$10,539,928.46
ALABAMA	74	73	34,325	37,726	133,840.39	190,095.07	101,804.38	86,018.47
ARIZONA	....	30	....	11,056	....	62,610.14	....	41,443.63
ARKANSAS	7	7	2,130	2,124	8,110.22	8,976.62	1,519.38	474.31
CALIFORNIA	2,379	2,463	334,078	382,460	1,341,038.37	1,761,277.56	800,108.78	976,632.11
COLORADO	25	28	4,764	578	....	13,206.60	....	7,223.63†
CONNECTICUT	651	705	104,806	126,896	817,395.42	1,032,170.94	433,517.04	472,308.25
DELAWARE	66	63	20,759	31,694	213,889.35	216,645.33	39,653.51	10,583.16
DISTRICT OF COLUMBIA	58	50	6,436	5,538	58,644.19	50,409.30	58,644.19	50,409.30
FLORIDA	31	35	16,134	17,335	85,844.89	80,452.19	19,632.64	1,405.32
GEORGIA	103	98	39,486	53,534	181,149.19	185,962.36	29,187.93	39,352.48
HAWAII	....	36	....	....	....	11,768.80	....	11,768.80
IDAHO	....	11	....	....	....	5,365.89	....	5,365.89
ILLINOIS	533	513	149,184	138,979	1,208,831.34	1,977,470.94	170,553.11	935,817.78
INDIANA	291	287	89,341	81,204	670,026.16	706,824.74	130,330.74	172,320.00
IOWA	223	203	60,286	66,991	430,394.04	444,227.80	84,176.67	72,508.51
KANSAS	72	78	10,328	34,905	179,200.82	222,404.52	57,701.90	52,957.82
KENTUCKY	114	55	25,739	9,433	257,294.58	57,793.91	164,806.24	12,187.15
LOUISIANA	....	16	....	1,319	....	14,451.16	....	5,733.07
MAINE	288	374	24,867	30,075	118,486.70	150,014.00	83,340.05	92,977.06
MARYLAND	105	120	42,885	60,531	146,248.65	299,144.56	111,318.87	169,472.84
MASSACHUSETTS	956	1,130	198,409	217,337	1,462,451.83	1,479,423.54	711,959.18	809,034.92
MICHIGAN	440	909	135,002	148,125	833,481.38	959,243.44	187,535.33	244,513.44
MINNESOTA	532	1,431	162,892	155,275	676,864.80	699,360.75	201,648.73	324,232.23
MISSISSIPPI	8	8	1,985	2,491	22,080.00	11,593.82	19,715.30	3,617.37
MISSOURI	140	141	53,164	8,474	349,363.60	379,504.11	100,686.23	75,410.77
MONTANA	8	8	3,077	3,264	17,788.75	29,655.18	8,383.42	29,655.18
NEBRASKA	70	51	27,595	28,083	242,094.42	209,614.27	27,676.27	41,177.81
NEVADA	2	2	289	104	551.19	496.54	233.81	168.77
NEW HAMPSHIRE	57	91	3,559	5,588	15,169.92	27,465.55	7,561.92	17,387.23
NEW JERSEY	631	747	205,122	228,855	1,733,865.51	2,094,937.23	589,718.23	693,070.09
NEW YORK	1,358	1,315½	861,453	878,400	4,480,043.91	4,841,605.19	2,868,216.94	2,917,011.85
NORTH CAROLINA	37	70	16,984	28,861	60,649.54	95,383.77	13,947.69	33,963.50
OHIO	754	816	236,380	321,529	1,821,075.78	1,997,634.52	478,813.53	502,324.61
OKLAHOMA	65	69	17,926	24,063	106,682.61	121,062.02	69,798.40	107,415.82
OREGON	112	121	59,674	67,117	320,465.49	359,708.21	110,754.83	99,907.06
PENNSYLVANIA	2,187	2,054	569,122	550,002	4,386,564.32	4,313,716.43	897,632.78	817,034.11
RHODE ISLAND	326	328	102,265	106,886	987,982.42	995,271.11	129,261.11	75,061.99
SOUTH DAKOTA	55	57	14,079	12,181	95,406.48	108,185.76	44,324.68	37,838.90
TENNESSEE	94	69	37,002	31,925	203,235.59	194,450.76	25,157.51	26,032.14
TEXAS	101	125	26,129	38,461	245,554.47	260,451.07	199,886.00	159,629.77
UTAH	18	18	6,203	8,350	25,461.14	29,644.87	12,951.37	12,100.94
VERMONT	18	31	623	4,213	8,505.47	9,959.94	7,250.12	8,692.04
VIRGINIA	83	89	34,007	34,024	200,090.24	210,231.42	133,284.92	137,493.33
WASHINGTON	266	262	122,959	123,080	1,004,532.69	909,833.70	269,625.34	109,551.03
WEST VIRGINIA	169	92	42,992	19,587	227,130.01	110,485.72	81,066.31	28,729.60
WISCONSIN	328	317	75,797	83,788	627,650.17	731,204.65	93,005.94	125,562.64
WYOMING	....	1	....	395	....	1,000.00	....	800.00
TOTALS								

TOTALS—UNITED STATES	Number of Schools	Number Participating	Deposits	Net Savings
1928–1929	15,597½	4,222,935	$28,672,496.00	$10,539,928.46
1927–1928	13,835	3,980,237	26,005,138.04	9,476,391.32
1926–1927	12,678	3,742,551	23,703,436.80	9,464,178.93
1925–1926	11,371	3,403,746	20,469,960.88	8,770,731.05
1924–1925	10,163	2,869,497	16,961,560.72	7,779,992.55
1923–1924	9,080	2,236,326	14,991,535.40	8,556,991.27
1922–1923	6,868	1,907,851	10,631,838.69	....
1921–1922	4,785	1,295,607	5,775,122.32	....
1920–1921	3,316	802,906	4,158,050.15	....
1919–1920	2,736	462,651	2,800,301.18	....

Committees and Commissions

THE following list includes the membership in the various Committees and Commissions (excepting those of Divisions and Sections) for the ensuing year, under the new administration; the membership of the Federal and State Legislative Councils; members-at-large of the Executive Council, and the vice-presidents for territories and in foreign countries:

Administrative Committee

John G. Lonsdale, president, Mercantile-Commerce Bank & Trust Co., St. Louis, Mo., chairman.

J. W. Barton, vice-president, Metropolitan National Bank, Minneapolis, Minn.

W. J. Evans, Assistant Federal Reserve Agent, Federal Reserve Bank of Dallas, Dallas, Tex.

M. A. Graettinger, secretary, Illinois Bankers Association, Chicago, Ill.

Harry J. Haas, vice-president, First National Bank, Philadelphia, Pa.

George H. Hamilton, vice-president, Fourth National Bank, Wichita, Kans.

Craig B. Hazlewood, vice-president, First National Bank of Chicago, Chicago, Ill.

Grant McPherrin, president, Central National Bank & Trust Co., Des Moines, Iowa.

John C. Mechem, vice-president, First Union Trust & Savings Bank, Chicago, Ill.

Will F. Morrish, vice-president and manager, Bank of America of California, San Francisco, Cal.

John McHugh, chairman exec. com., Chase National Bank, New York, N. Y.

Austin McLanahan, president, Savings Bank of Baltimore, Baltimore, Md.

J. A. Pondrom, president, City National Bank, Dallas, Tex.

Dan V. Stephens, president, Fremont State Bank, Fremont, Nebr.

Rome C. Stephenson, vice-president, St. Joseph County Savings Bank, South Bend, Ind.

Committee on Federal Legislation

Harold K. Downing, president, Troy Trust Co., Troy, N. Y., chairman.

F. G. Addison, Jr., vice-president, Security Savings & Commercial Bank, Washington, D. C.

V. J. Alexander, vice-president, American National Bank, Nashville, Tenn.

J. M. Appel, president, Highland Park State Bank, Highland Park, Ill.

S. A. Hubbard, vice-president, Central Bank & Trust Co., Asheville, N. C.

G. H. Yates, vice-president, United States National Bank, Omaha, Neb.

In addition to the foregoing the chairman of the Federal Legislative Committee of each of the Divisions is an ex-officio member of the above Committee on Federal Legislation.

Federal Legislative Council

Harold K. Downing, president, Troy Trust Co., Troy, N. Y., chairman.

State Chairmen

Alabama—Clyde Hendrix, president, Tennessee Valley Bank, Decatur.

Arizona—A. T. Esgate, vice-president-secretary, The Valley Bank, Phoenix.

Arkansas—W. A. Hicks, president, Peoples Trust Co., Little Rock.

California—J. B. Chaffey, vice-president, California Bank, Los Angeles.

Colorado—P. K. Alexander, vice-president, First National Bank, Denver.

Connecticut—Wm. P. Calder, president, Bristol National Bank, Bristol.

Delaware—Henry Ridgely, president, Farmers Bank, Dover.

District of Columbia—F. G. Addison, Jr., vice-president, Security Savings & Commercial Bank, Washington.

Florida—J. H. Therrell, president, Commercial Bank & Trust Co., Ocala.

Georgia—C. Holmes Sheldon, vice-president, National Bank of Brunswick, Brunswick.

Idaho—A. V. Chamberlin, vice-president, American Trust Co., Coeur d'Alene.

Illinois—J. M. Appel, president, Highland Park State Bank, Highland Park.

Indiana—C. O. Holmes, president, South Side Trust & Savings Bank, Gary.

Iowa—Herbert L. Horton, vice-president, Des Moines National Bank, Des Moines.

Kansas—George H. Hamilton, vice-president, Fourth National Bank, Wichita.

Kentucky—N. H. Dosker, vice-president, Louisville Trust Co., Louisville.

Louisiana—J. F. Flournoy, Jr., vice-president, Whitney Central National Bank, New Orleans.

Maine—Charles G. Allen, president, Portland National Bank, Portland.

Maryland—Wm. S. Gordy, cashier, Salisbury National Bank, Salisbury.

Massachusetts—Irving W. Cook, president, First National Bank, New Bedford.

Michigan—E. R. Morton, vice-president-cashier, National Bank & Trust Co., Battle Creek.

Minnesota—R. B. Rathbun, assistant cashier, First National Bank, Minneapolis.

Mississippi—A. L. Jagoe, president, Iuka Guaranty Bank, Iuka.

Missouri—E. E. Amick, vice-president, First National Bank, Kansas City.

Montana—E. H. Westbrook, president, Midland National Bank, Billings.

Nebraska—G. H. Yates, vice-president, United States National Bank, Omaha.

Nevada—J. Sheehan, vice-president, Reno National Bank, Reno.

New Hampshire—Harry L. Alexander, cashier, Mechanics National Bank, Concord.

New Jersey—F. Morse Archer, president, First Camden National Bank & Trust Co., Camden.

New Mexico—W. A. Losey, cashier, First National Bank, Hagerman.

New York—Harold K. Downing, president, Troy Trust Co., Troy.

North Carolina—S. A. Hubbard, vice-president, Central Bank & Trust Co., Asheville.

North Dakota—E. J. Weiser, president, First National Bank & Trust Co., Fargo.

Ohio—Arthur B. Taylor, president, Lorain County Savings & Trust Co., Elyria.

Oklahoma—A. J. Martin, president, Okemah National Bank, Okemah.

Oregon—J. F. Daly, president, Hibernia Commercial & Savings Bank, Portland.

Pennsylvania—C. W. Orwig, vice-president, Commonwealth Trust Co., Pittsburgh.

Rhode Island—A. R. Plant, president, Blackstone Canal National Bank, Providence.

South Carolina—J. M. Kinard, president Commercial Bank, Newberry.

South Dakota—Dean H. Lightner, president Citizens Trust & Savings Bank, Aberdeen.

Tennessee—V. J. Alexander, vice-president, American National Bank, Nashville.

Texas—W. H. Fuqua, president, First National Bank, Amarillo.

Utah—M. S. Eccles, president, First National Bank, Ogden.

Vermont—W. C. Johnson, Jr., cashier, Peoples National Bank, Barre.

Virginia—C. E. Tiffany, president, Fauquier National Bank, Warrenton.

Washington—H. W. MacPhail, president, Willapa Harbor State Bank, Raymond.

West Virginia—J. Howard McDonald, vice-president, Wheeling Bank & Trust Co., Wheeling.

Wisconsin—Knute Anderson, cashier, Union National Bank, Eau Claire.

Wyoming—S. Conant Parks, president, First National Bank, Lander.

Fiftieth Anniversary Committee

Lewis E. Pierson, chairman of board, Irving Trust Co., New York, chairman.

P. W. Goebel, president, Liberty National Bank, Kansas City, Mo.

Walter W. Head, president, State Bank of Chicago, Chicago, Ill.

William A. Law, chairman of board, First National Bank, Philadelphia, Pa.

Robert F. Maddox, chairman of board, Atlanta & Lowry National Bank, Atlanta, Ga.

Thomas B. McAdams, executive manager, State-Planters Bank & Trust Co., Richmond, Va.

Thomas R. Preston, president, Hamilton National Bank, Chattanooga, Tenn.

J. H. Puelicher, president, Marshall & Ilsley Bank, Milwaukee, Wis.

George M. Reynolds, chairman executive committee, Continental-Illinois Bank & Trust Co., Chicago, Ill.

E. F. Swinney, president, First National Bank, Kansas City, Mo.

M. A. Traylor, president, First National Bank, Chicago, Ill.

Oscar Wells, president, First National Bank, Birmingham, Ala.

Secretary—W. Espey Albig, Deputy Manager, A.B.A., 110 East 42nd St., New York City.

Finance Committee

Rome C. Stephenson, vice-president, St. Joseph County Savings Bank, South Bend, Ind., chairman.

Charles A. Burns, vice-president, Foreman National Bank, Chicago, Ill.

R. J. Buck, president, Northern New York Trust Co., Watertown, N. Y.

Herbert W. Goodall, president, Tradesmens National Bank & Trust Co., Philadelphia, Pa.

Harry J. Haas, vice-president, First National Bank, Philadelphia, Pa.

Walter K. Hardt, president, Integrity Trust Co., Philadelphia, Pa.

H. B. Humason, vice-president, American National Bank, St. Paul, Minn.

Henry James, president, Farmers & Merchants National Bank, Abilene, Texas.

Grant McPherrin, president, Central National Bank & Trust Co., Des Moines, Iowa.

Committee on Membership

C. E. McCutchen, vice-president, First National Bank, Wichita Falls, Tex., chairman.

F. O. Birney, president, Reliance Bank & Trust Co., Chicago, Ill.

Wm. A. Boyd, vice-president, First National Bank, Ithaca, N. Y.

J. B. Chaffey, vice-president, California Bank, Los Angeles, Cal.

Irving W. Cook, president, First National Bank, New Bedford, Mass.

J. R. Geis, president, Farmers National Bank, Salina, Kans.

C. J. Kirschner, vice-president, Markle Banking & Trust Co., Hazleton, Pa.

R. W. McAfee, vice-president, State National Bank, El Paso, Tex.

R. B. Rathbun, assistant cashier, First National Bank, Minneapolis, Minn.

E. A. Reddeman, vice-president, National Bank of Commerce, Milwaukee, Wis.

C. Holmes Sheldon, vice-president, National Bank of Brunswick, Brunswick, Ga.

Arthur B. Taylor, president, Lorain County Savings & Trust Co., Elyria, Ohio.

Ex-Officio

Thomas B. Paton, General Counsel A. B. A., 110 East 42nd St., New York.

Committee on State Legislation

E. A. Onthank, president, Safety Fund National Bank, Fitchburg, Mass., chairman.

W. A. Ackerman, vice-president, Knox National Bank, Mt. Vernon, O.

Charles G. Allen, president, Portland National Bank, Portland, Maine.

N. H. Dosker, vice-president, Louisville Trust Co., Louisville, Ky.

A. T. Esgate, vice-president-secretary, The Valley Bank, Phoenix, Ariz.

Ralph B. Hardacre, executive vice-president, Security-First National Bank, Los Angeles, Cal.

Clyde Hendrix, president, Tennessee Valley Bank, Decatur, Ala.

A. L. Jagoe, president, Iuka Guaranty Bank, Iuka, Miss.

J. Howard McDonald, vice-president, Wheeling Bank & Trust Co., Wheeling, W. Va.

Travis Oliver, president, Central Savings Bank & Trust Co., Monroe, La.

A. N. Sicard, president, First National Bank, Ft. Smith, Ark.

J. H. Therrell, president, Commercial Bank & Trust Co., Ocala, Fla.

Ex-officio members—the chairmen of the Committee on State Legislation of each Division.

State Legislative Council

E. A. Onthank, president, Safety Fund National Bank, Fitchburg, Mass., chairman.

State Chairmen

Alabama—Clyde Hendrix, president, Tennessee Valley Bank, Decatur.

Arizona—A. T. Esgate, vice-president-secretary, The Valley Bank, Phoenix.

Arkansas—A. N. Sicard, president, First National Bank, Fort Smith.

California—Ralph B. Hardacre, executive vice-president, Security-First National Bank, Los Angeles.

Colorado—P. K. Alexander, vice-president, First National Bank, Denver.

Connecticut—Wm. P. Calder, president, Bristol National Bank, Bristol.

Delaware—Henry Ridgely, president, Farmers Bank, Dover.

District of Columbia—F. G. Addison, Jr., vice-president, Security Savings & Commercial Bank, Washington.

Florida—J. H. Therrell, president, Commercial Bank & Trust Co., Ocala.

Georgia—C. Holmes Sheldon, vice-president, National Bank of Brunswick, Brunswick.

Idaho—A. V. Chamberlin, vice-president, American Trust Co., Coeur d'-Alene.

Illinois—W. B. Crawford, president, First State Savings Bank, West Frankfort.

Indiana—Gus H. Mueller, vice-president, Fletcher American National Bank, Indianapolis.

Iowa—C. E. Beman, vice-president, Mahaska County State Bank, Oskaloosa.

Kansas—C. W. McKeen, president, National Bank of Topeka, Topeka.

Kentucky—N. H. Dosker, vice-president, Louisville Trust Co., Louisville.

Louisiana—Travis Oliver, president, Central Savings Bank & Trust Co., Monroe.

Maine—Chas. G. Allen, president, Portland National Bank, Portland.

Maryland—Wm. S. Gordy, cashier, Salisbury National Bank, Salisbury.

Massachusetts—Elmer A. Onthank, president, Safety Fund National Bank, Fitchburg.

Michigan—Fred S. Case, vice-president-cashier, First National Bank, Sault Ste. Marie.

Minnesota—W. L. Brooks, president-Northern National Bank, Bemidji.

Mississippi—A. L. Jagoe, president, Iuka Guaranty Bank, Iuka.

Missouri—Clyde D. Harris, president, First National Bank, Cape Girardeau.

Montana—E. H. Westbrook, president, Midland National Bank, Billings.

Nebraska—Elmer Williams, president, Commercial State Bank, Grand Island.

Nevada—J. Sheehan, vice-president, Reno National Bank, Reno.

New Hampshire—Harry L. Alexander, cashier, Mechanics National Bank, Concord.

New Jersey—Walter E. Robb, president, Burlington City Loan & Trust Co., Burlington.

New Mexico—W. A. Losey, cashier, First National Bank, Hagerman.

New York—M. H. Cahill, president, The Plaza Trust Co., New York.

North Carolina—John D. Biggs, president, Farmers & Merchants Bank, Williamston.

North Dakota—E. J. Weiser, president, First National Bank & Trust Co., Fargo.

Ohio—W. A. Ackerman, vice-president, Knox National Bank, Mt. Vernon.

Oklahoma—Charles H. Fawks, Jr., cashier, First National Bank, Snyder.

Oregon—J. F. Daly, president, Hibernia Commercial & Savings Bank, Portland.

Pennsylvania—G. J. Kirschner, vice-president, Markle Banking & Trust Co., Hazleton.

Rhode Island—A. R. Plant, president, Blackstone Canal National Bank, Providence.

South Carolina—J. M. Kinard, president, Commercial Bank, Newberry.

South Dakota—Dean H. Lightner, president, Citizens Trust & Savings Bank, Aberdeen.

Tennessee—Joseph Gaut, director, East Tennessee National Bank, Knoxville.

Texas—R. W. McAfee, vice-president, State National Bank, El Paso.

Utah—M. S. Eccles, president, First National Bank, Ogden.

Vermont—W. C. Johnson, Jr., cashier, Peoples National Bank, Barre.

Virginia—C. E. Tiffany, president, Fauquier National Bank, Warrenton.

Washington—R. M. Hardy, president, Yakima National Bank, Yakima.

West Virginia—J. Howard McDonald, vice-president, Wheeling Bank & Trust Co., Wheeling.

Wisconsin—Norman T. Gill, secretary, Madison Trust Co., Madison.

Wyoming—S. Conant Parks, president, First National Bank, Lander.

Committee on Taxation

Thornton Cooke, president, Columbia National Bank, Kansas City, Mo., chairman.

Alabama—Clyde Hendrix, president, Tennessee Valley Bank, Decatur.

Arizona—A. T. Esgate, vice-president-secretary, The Valley Bank, Phoenix.

Arkansas—A. N. Sicard, president, First National Bank, Fort Smith.

California—W. E. Wilcox, vice-president and cashier, Anglo & London, Paris National Bank, San Francisco.

(Continued on page 379)

This ledger equipment saved one-third of the clerical expense

adding protection, utility and convenience

For several years a Chicago Bank employed six clerks to handle the work in the Savings Department, by means of a hand-posted, loose-leaf binder system.

Now, with two of these ledger desks, holding a card ledger system, machine posted, four clerks are taking care of the increasing volume of business.

They are doing it with greater speed and accuracy than before and with more convenience to themselves and to customers.

Besides the clerical saving accomplished, a considerable saving of floor space was made.

What is more important, the bank now secures adequate *day and night fire protection* for their ledgers.

The body of the ledger desk has a reinforced type of monolithic insulation built into it, similar to the construction of a good, fire-protected safe.

The top is a solid circular curtain of steel packed with insulation between its double walls and fits tightly enough to form perfect protection against both fire and water.

In this bank two desks take care of 30,000 accounts. Each desk is designed to hold from 13,000 to 15,000 ledger cards, in removable trays, depending on the size and weight of the card, and the character of indexing used. The drawers below the desk are for filing the signature cards or cross reference cards, also for storing ledger cards of closed accounts.

Why not investigate the economies this ledger desk and modern card system might bring about in your own bank? Call in your local *Skyscraper Man* or write Shaw-Walker Bank Department, Muskegon, Michigan.

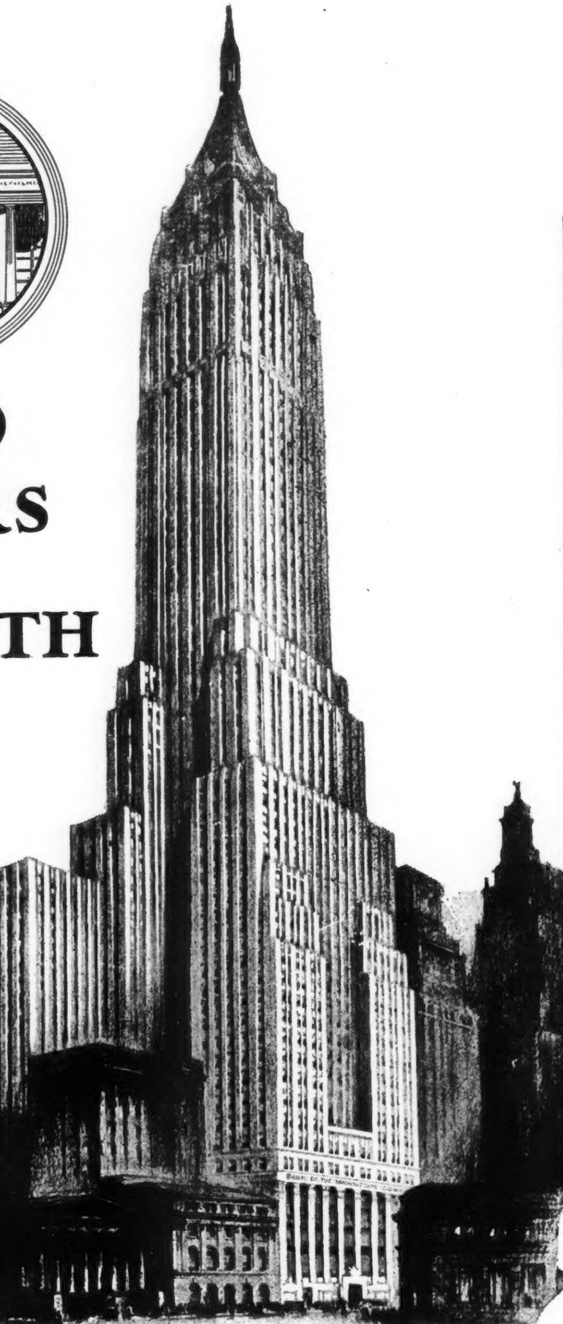
Shaw-Walker manufacture for banks:
Check Sorting Racks
Insulated Filing Cabinets
Commercial Bookkeeper's Desks
Ledger Trays and Bases
Record Vault Files
Teller's Trucks of all Kinds
OfficeFurniture and System Forms for the operating records of all Departments

"Built Like a Skyscraper"

SHAW-WALKER
MUSKEGON, MICHIGAN
Bank Specialists In All Principal Cities

Pin this to your letterhead. It will bring you without obligation complete information regarding the Insulated Savings Ledger Desk and samples of card systems used by many progressive banks.
A. B. J. 10-29

130 YEARS OF GROWTH



New York's TALLEST BUILDING

SPRINGING from the heart of the world's financial center, the magnificent new Bank of the Manhattan Company Building soon will mark the apex of New York's skyline.

With its massive foundations resting upon the historic site of our Main Office at 40 Wall Street, and rising 64 stories above the pavement, the towering structure will occupy a large portion of the block bounded by Wall, William, Nassau and Pine Streets.

Within this block the American Congress first assembled and George Washington was inaugurated as first President of the United States. Included in the area today, are the old Sub-treasury building and the United States Assay Office.

AN HISTORIC BANK

For 130 years, the Bank of the Manhattan Company has been continuously identified with the development of the city. Chartered in 1799, and today the oldest bank in America operating under its original charter, it has been a constructive factor in many historic events. It aided the government financially during every war in the Nation's history. It helped the State in financing that great feeder of New York's prosperity, the Erie Canal. It was one of the founders of the New York Clearing House in 1853.

In addition to its banking service the Manhattan Company, as America's earliest public utility, furnished the city with its first adequate supply of pure water—to which fact it owes its famous "Oceanus" seal, shown below.

"MANHATTAN SERVICE"

This term represents every phase of modern banking and trust service.

Throughout its long history, the Bank of the Manhattan Company has steadily enlarged its resources and facilities to meet the swiftly expanding needs of the growing city and its people. Today it maintains sixty-two offices in various sections of Greater New York for the convenience of its customers, while complete foreign banking and investment services are provided directly and through these offices by its affiliated companies,—the International Acceptance Bank, Inc., and the International Manhattan Company, Incorporated.

Chartered 1799

BANK *of the* MANHATTAN COMPANY

and its affiliates

INTERNATIONAL ACCEPTANCE BANK, INCORPORATED — INTERNATIONAL MANHATTAN COMPANY, INCORPORATED

MAIN OFFICE — 40 WALL STREET — NEW YORK CITY

Capital, Surplus and Undivided Profits over $65,000,000 ~ Total Resources over $675,000,000

Committees and Commissions

(*Continued from page* 376)

Colorado—P. K. Alexander, vice-president, First National Bank, Denver.

Connecticut—Wm. P. Calder, president, Bristol National Bank, Bristol.

Delaware—Henry Ridgely, president, Farmers Bank, Dover.

District of Columbia—F. G. Addison, Jr., vice-president, Security Savings & Commercial Bank, Washington.

Florida—J. H. Therrell, president, Commercial Bank & Trust Co., Ocala.

Georgia—C. Holmes Sheldon, vice-president, National Bank of Brunswick, Brunswick.

Idaho—A. V. Chamberlin, vice-president, American Trust Co., Coeur d'Alene.

Illinois—William George, president, Old Second National Bank, Aurora.

Indiana—C. O. Holmes, president, South Side Trust & Savings Bank, Gary.

Iowa—W. A. Lane, cashier, First National Bank, Waterloo.

Kansas—Geo. W. Nimocks, president, State Bank of Scandia, Scandia.

Kentucky—N. H. Dosker, vice-president, Louisville Trust Co., Louisville.

Louisiana—Travis Oliver, president, Central Savings Bank & Trust Co., Monroe.

Maine—Chas. G. Allen, president, Portland National Bank, Portland.

Maryland—Wm. S. Gordy, cashier, Salisbury National Bank, Salisbury.

Massachusetts—Elmer A. Onthank, president, Safety Fund National Bank, Fitchburg.

Michigan—Walter L. Dunham, president, Detroit Savings Bank, Detroit.

Minnesota—W. L. Brooks, president, Northern National Bank, Bemidji.

Mississippi—A. L. Jagoe, president, Iuka Guaranty Bank, Iuka.

Missouri—Thornton Cooke, president, Columbia National Bank, Kansas City.

Montana—E. H. Westbrook, president, Midland National Bank, Billings.

Nebraska—Woods Cones, president, Cones State Bank, Pierce.

Nevada—J. Sheehan, vice-president, Reno National Bank, Reno.

New Hampshire—Harry L. Alexander, cashier, Mechanics National Bank, Concord.

New Jersey—Wessels Van Blarcom, second vice-president, Second National Bank, Paterson.

New Mexico—W. A. Losey, cashier, First National Bank, Hagerman.

New York—A. B. Merrill, president, First Trust & Deposit Co., Syracuse.

North Carolina—John D. Biggs, president, Farmers & Merchants Bank, Williamston.

North Dakota—E. J. Weiser, president, First National Bank & Trust Co., Fargo.

Ohio—Robt. McEvilley, vice-president, First National Bank, Cincinnati.

Oklahoma—T. J. Hartman, president, Producers National Bank, Tulsa.

Oregon—J. F. Daly, president, Hibernia Commercial & Savings Bank, Portland.

Pennsylvania—C. A. Cunningham, president, First National Bank, Cresson.

Rhode Island—A. R. Plant, president, Blackstone Canal National Bank, Providence.

South Carolina—J. M. Kinard, president, Commercial Bank, Newberry.

South Dakota—Dean H. Lightner, president, Citizens Trust & Savings Bank, Aberdeen.

Tennessee—Joseph P. Gaut, director, East Tennessee National Bank, Knoxville.

Texas—R. W. McAfee, vice-president, State National Bank, El Paso.

Utah—M. S. Eccles, president, First National Bank, Ogden.

Vermont—W. C. Johnson, Jr., cashier, Peoples National Bank, Barre.

Virginia—C. E. Tiffany, president, Fauquier National Bank, Warrenton.

Washington—R. M. Hardy, president, Yakima National Bank, Yakima.

West Virginia—J. Howard McDonald, vice-president, Wheeling Bank & Trust Co., Wheeling.

Wisconsin—Norman T. Gill, secretary, Madison Trust Co., Madison.

Wyoming—S. Conant Parks, president, First National Bank, Lander.

Special Committee on Section 5219 U. S. Revised Statutes

Thornton Cooke, president, Columbia National Bank, Kansas City, Mo., chairman.

Charles P. Blinn, Jr., vice-president, Philadelphia National Bank, Philadelphia, Pa., vice-chairman.

Edward Elliott, vice-president, Security-First National Bank, Los Angeles, Cal.

Robert V. Fleming, president, Riggs National Bank, Washington, D. C.

R. E. Harding, vice-president, Fort Worth National Bank, Fort Worth, Tex.

Eugene E. Hoge, president, State National Bank, Frankfort, Ky.

P. D. Houston, chairman of board, American National Bank, Nashville, Tenn.

E. O. Howard, president, Walker Bros. Bank, Salt Lake City, Utah.

Walter Kasten, president, First Wisconsin National Bank, Milwaukee, Wis.

Edgar L. Mattson, vice-president, Midland National Bank & Trust Co., Minneapolis, Minn.

R. R. Mattison, president, National Bank of Tacoma, Tacoma, Wash.

Charles H. Mylander, secretary, Ohio Bankers Association, Columbus, Ohio.

Waldo Newcomer, chairman of board, Baltimore Trust Co., Baltimore, Md.

Elmer A. Onthank, president, Safety Fund National Bank, Fitchburg, Mass.

James Ringold, president, United States National Bank, Denver, Col.

Special Committee on National Bankruptcy Act

M. R. Sturtevant, vice-president, First National Bank, St. Louis, Mo., chairman.

Edward Elliott, vice-president, Security-First National Bank, Los Angeles.

W. H. Fuqua, president, First National Bank, Amarillo, Tex.

W. C. Gordon, president, Farmers Savings Bank, Marshall, Mo.

Frank P. Johnson, president, American First National Bank, Oklahoma City, Okla.

W. P. O'Neal, vice-president, Canal Bank & Trust Co., New Orleans, La.

Ralph Stone, chairman of board, Detroit & Security Trust Co., Detroit.

G. H. Yates, vice-president, United States National Bank, Omaha.

Advisory Member—Thomas B. Paton, General Counsel, A. B. A., 110 East 42nd St., New York.

Vice-Presidents for Foreign Countries

Canada—A. E. Phipps, general manager, Imperial Bank of Canada, Toronto.

China—Frank J. Raven, president, American Oriental Banking Corporation, Shanghai.

Cuba—H. G. Hesler, president, Trust Company of Cuba, Havana.

England—O. Bernsten, general manager, Bankers Trust Co., London.

France—E. S. Chappelear, vice-president, Bankers Trust Co., Paris.

Isle of Pines—John A. Miller, president, National Bank & Trust Co., Neuva Gerona.

Mexico—A. Mascarenas, managing director, Banco de Mexico, Mexico City.

Newfoundland—B. C. Gardner, manager, Bank of Montreal, St. Johns.

Panama—A. Delvalle, president, Banco Nacional, Panama.

Five Members at Large of Executive Council

L. A. Andrew, president, Citizens Savings Bank, Ottumwa, Iowa.

Thornton Cooke, President, Columbia National Bank, Kansas City, Mo.

C. E. McCutchen, vice-president, First National Bank, Wichita Falls, Texas.

J. R. Kraus, vice-president, Union Trust Co., Cleveland, Ohio.

Moorhead Wright, chairman of board, Union Trust Co., Little Rock, Ark.

Foundation Trustees

Leonard P. Ayres, vice-president, Cleveland Trust Co., Cleveland, Ohio.

Lewis E. Pierson, chairman of board, Irving Trust Co., New York, N. Y.

J. H. Puelicher, president, Marshall & Ilsley Bank, Milwaukee, Wis.

Francis H. Sisson, vice-president, Guaranty Trust Co., New York, N. Y.

Melvin A. Traylor, president, First National Bank, Chicago, Ill.

Evans Woollen, president, Fletcher Savings & Trust Co., Indianapolis, Ind.

Ex-Officio

President, 1st and 2nd Vice-Presidents, and Executive Manager A. B. A., and Educational Director A. I. B.

Secretary—W. Espey Albig, 110 East 42nd Street, New York City.

Insurance Committee

W. F. Keyser, secretary, Missouri Bankers Association, Sedalia, Mo., chairman.

William J. Eck, vice-president and secretary, Equitable Trust Co., New York.
Charles A. Faircloth, vice-president, First National Bank, Tampa, Fla.
W. P. Gardner, senior vice-president, N. J. Title Guarantee & Trust Co., Jersey City, N. J.
A. O. Wilson, vice-president, Mississippi Valley Merchants State Trust Co., St. Louis, Mo.
Advisory Member—Thomas B. Paton, General Counsel A. B. A., 110 East 42nd St., New York, N. Y.
Secretary—James E. Baum, Deputy Manager A. B. A., 110 East 42nd St., New York, N. Y.

Agricultural Commission

(Numbers in parenthesis indicate Federal Reserve Districts)

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Ben. S. Paulen (10), president, Wilson County Bank, Fredonia, Kansas.
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BANK OF COMMERCE

Safety and Profit in the Investment Account

Means Whereby Banks May Increase Earnings from Investments Suggested from Results of an Inquiry into Security Account Management in Smaller Institutions Throughout the Country Made by a Special Committee of the Savings Bank Division.

HOW may the smaller banks so manage their investments that they may derive greater income from this source?

An answer to this question is given in the following report of a special Committee on Investments of the Savings Banks Division, composed of A. C. Robinson, president of the People's Savings & Trust Company, Pittsburgh; Myron F. Converse, treasurer of the Worcester (Mass.) Five Cents Savings Bank, and Austin McLanahan, president, Savings Bank of Baltimore:

It is assumed that the first desire of a bank is to lend locally all it safely can on satisfactory terms, thus promoting the business and growth of its own community, which in turn promotes the bank's welfare. Another primary consideration is that the banker should never overlook keeping his institution liquid.

The banker differs from the individual investor in that he must have liquidity, or the ability to convert his assets into cash when required. The individual may never have to sell or convert his securities, but a banker cannot make this assumption, for his deposits are at the command of his depositors at any time. In the case of savings accounts there is, of course, the time limit, but even this is restricted.

After the Local Demand

THE banker, however, does know that a certain amount of his savings deposits will always remain untouched, and for this reason his institution can safely buy mortgages and other not easily converted assets which a commercial banker cannot safely hold. Even in the investment in securities by a purely commercial bank it is not a bad rule never to buy any stock or bonds which do not enjoy a ready market at all times.

A fairly safe indicator of the investment situation is the interest rate for call loans on the New York Stock Exchange. When the rate has been 6 per cent or more for a long period, it is a clear indication that there is a credit strain, and commercial banks would do well to have their money loaned and not invested. If the local demand does not absorb the funds of a bank, it would be well to put them on call in New York—in bankers' acceptances and in prime short time paper. This use of funds has the added advantage of being impersonal. The bank does not come in personal contact with the borrower, and therefore escapes the importunities of its clients and the—at some times—embarrassment in pressing for repayment.

It is in times when money is cheap and interest rates are low that the most careful attention should be given to the investment of surplus funds. The temptation is very strong to buy something which pays a little more than the current rate. A belief that money rates will go still lower often hastens purchases with the expectation that long term bonds will appreciate in price. While the judicious purchase of long term securities early in the period of lowering interest rates is wise and profitable, times of low interest rates are danger periods for the inexperienced banker who lacks wise investment counsel. It is at such times, when it is relatively easy for the issuing house to sell bonds, that the quality of bonds deteriorates.

Slow to Stop Losses

IT is well to remember that new issues of bonds usually have a considerable profit for the issuing houses, and their market variations may be wide until they are well distributed and locked in the strong boxes of the investors. This is not so much the case with bonds which have been outstanding for a long time and which have become thoroughly seasoned. It is not a bad rule for an inexperienced banker without good investment advice to confine the investment in bonds for his institution to those listed on the New York Stock Exchange, although this in and of itself is not a sufficient recommendation.

Another general observation to be noted is the natural indisposition of banks to take profits or losses unless some other immediate use for the funds can be found. Most inexperienced investors are slow to stop their losses when the prices of their securities go down. It is also true that they miss many opportunities to increase their profits by selling when everything looks bright. It has been said that in banking, "It is not so much what you make as what you don't lose that counts." This applies particularly to the investment account.

In the course of its study the committee found several points in the management of the average bank investment account, which should be corrected. The principal ones are:

No matured policy or method in purchasing securities.
No definite investment program.
Lack of knowledge of securities owned and of the types of securities which should be purchased.
Trend of interest rates on securities.
Failure to review and appraise all holdings at regular periodical intervals.
Exchanges.
Keeping funds employed.

It was found that a majority of the smaller banks purchase securities only after approval of the board of directors. This method makes it impossible for the banks to take advantage of offerings of the so-called "fast issues," by which is meant new issues which are very attractive and are quickly snapped up by large buyers, often being all sold by ten o'clock on the morning they are offered and immediately commanding a premium above the issue price. Banks which cannot give an immediate answer are not called by telephone on issues of this type. It is believed the smaller banks should follow the larger ones and authorize at least one officer to purchase or sell securities without waiting for approval of the board.

Better to Buy a Lower Yield

IN some cases several small bankers have united in the employment of an individual expert in security values, to supervise their investment accounts, thus securing at reasonable cost wisdom and experience which no one banker individually could afford.

It is believed the smaller banks would do well to follow the large financial institutions and adopt the policy of buying securities when wanted rather than having securities sold to them. Safety and fair price should be purchased instead of interest rate and what the salesman has to sell. As a rule the salesman's best efforts are put forth to sell the most profitable issue on his list, irrespective of the bank's requirements. Frequently, if he is sufficiently persistent, he succeeds. This implies no criticism of the salesman's integrity and effort. In many cases the bank would fare better to buy a lower yield and have greater security and marketability.

A record should be kept of security issuing houses and of the issues put out by them in order to know how these issues have fared marketwise when selling syndicates are dissolved, and, whether the house makes a market for its issues until they are well distributed and seasoned. At the same time due

allowance must be given to changes in interest rates and depressing influences. No house, no matter how strong or how wise, can guarantee future prices on its securities.

A Flow of Funds

HAVING established a definite purchasing policy, the next step is to formulate an investment program to meet the bank's requirements as to security, maturity and liquidation. Many banks buy far more security than is necessary, irrespective of income. Others buy coupon rate or price and overlook the factor of safety. Neither is correct. A safe medium can be reached and should be the aim of all buyers. Unless regulated by state laws, the average bank does not need to hold too high a percentage of underlying, low yield railroad and public utility bonds. A certain amount of this type is desirable to raise the average quality of the list, but not so much as to make the average yield too low. It should not be made a rule to buy only, as some do, securities rated AAA, or as others do, nothing yielding less than 6 per cent. Of the two, the former is preferable, as the possibilities of loss of principal are very limited, but it results in a loss of income. The second method is entirely wrong. A policy of this kind will surely bring losses if followed for a period of years.

Every list should have a fair percentage of short term securities, maturing in from six months to five years. In this way a bank has a flow of funds coming in which can be counted on, also, they can be sold without great sacrifice in time of stress. The advantage of this policy has been proved to many banks during the last eighteen months.

Liquidity should receive consideration second only to security of principal. Banks which have purchased new issues of securities during the last three or four years and recently found themselves faced with the problem of raising cash through the sale of these issues were in many cases forced to take losses which were far greater than the average decline in prices, because a large part of their holdings had very limited, and in some cases only what is known as a one house market.

A Good Distribution

GREAT care should be taken to secure proper diversification of holdings. Not over 5 per cent of the list should be in any one company, and the following is considered a good distribution according to groups:

Governments	10 to 20 per cent
Railroads	20 to 30 per cent
Utilities	20 to 30 per cent
Industrials	20 to 30 per cent
Foreign	10 to 15 per cent

After determining desirable percentages by groups, the list should be diversified geographically and the industrials by industries. Geographical diversification is desirable in the rails, also in utilities and foreigns, as depressions or disasters which may occur in one section are not apt to affect the entire list marketwise. In the industrial group selection should be made from the food, chemical, steel, oil, rubber, automobile, and other industries. Depressions which may affect one or more industries do not necessarily affect all.

Lack of knowledge on the part of bank officials of the securities purchased has resulted in serious losses to a number of banks. While it is realized that the smaller banks cannot afford the personnel or facilities, which the larger banks maintain, to study securities, it is believed a far greater knowledge of the securities held, or under consideration for purchase, can be obtained by communication with a correspondent financial institution of size and service competent to advise, or by retaining the services of one of the statistical organizations. The opinion of either of these should be given greater consideration than the recommendation of the salesman or the firm offering the securities. Bond salesmen often state that certain banks spend far more time investigating a request for a local loan of $100 than is devoted to the purchase of $5,000 of bonds of a company whose name is entirely unknown to them. If one well-equipped officer with proper contacts is responsible for all purchases, this condition could not exist.

Opportunity for Gain

ANOTHER phase of investment in bonds and preferred stocks is the question of convertibility into stocks, or attached warrants permitting the purchase of stocks under certain conditions. It is often possible to get much safety in such securities with the opportunity for considerable gain in values should the company prosper. There have been some very striking illustrations of this in recent years. However, this question calls for careful study, wise advice, and ability to act promptly when such issues are brought out, or conditions indicate that already issued convertible bonds have possibilities of a large rise ahead of them.

Another point with which everyone handling an investment account should be familiar is the laws of the state under which the bank is chartered. Ignorance of the laws and the types of securities which the bank may hold often prevents profitable investment. A banker was offered at par a 7 per cent non-callable preferred stock of one of the largest steel companies. The banker at first declined because he said the state laws did not permit the purchase of stocks, and he was also ignorant that dividends were exempt from income tax when stock was held by a corporation. Upon having these points made clear to him, the banker purchased a block of the stock. The result is that the bank has had a 7 per cent tax free income for several years and an appreciation of over 20 per cent in principal.

An understanding of the general trend of interest rates over periods of time is also almost essential to profitable investment. If the trend is toward higher interest rates or is being sustained at a high level, the bank should confine its investment purchases to short time maturities, and should endeavor to keep liquid against the time for buying investments on a more liberal scale. When the trend has turned toward lower interest rates the bank should then buy as liberally as possible of long time investment securities, not only for the continued high rate of interest, but for the appreciation in the prices of the securities. It is of course impossible, generally speaking, to tell the exact time when the change takes place in the long period trends, but much can be learned by careful study of the data which is now so liberally furnished by statistical organizations and publications, together with the advice of large banking institutions.

May Be Carried Too Far

ONE of the best ways to increase earnings from the investment account is to eliminate losses as far as possible. One way to do this, in addition to exercising the greatest care in purchasing, is to follow up by having a periodical review and appraisal of the list. This should be done at least quarterly and markets should be checked at least once a week. In this way sudden fluctuations in any issues will be noticed and the reason should be learned. It was found that many banks were very careless in their method of scheduling investments. It is suggested that a schedule be made up divided into groups (railroad, utility, industrial, etc.), showing the date of purchase, name of the issue, par amount held, the unit and total cost, yield at cost, market price, and amount and yield at market. Each of these groups should be totaled and a recapitulation of the entire list made, showing total par, amount, cost and market of each group. The total of these columns will give the total par amount held, total cost, and total market value of the entire list.

Reviews may be made of the list by an unbiased party to whom a fee is paid, and who receives no orders. There are several reliable statistical organizations whose services are available to clients at all times. Their opinions are not infallible, but are based on facts, and their records are kept as nearly up to date as possible.

Another means of increasing the earnings from the investment account is to keep the account active and make exchanges whenever advantageous. Many issues, either because of sinking fund operations, buying by the company to use surplus funds, or for other reasons, will be selling out of line with equally desirable issues. Advantage should be taken of situations of this kind to make exchanges. It is best to confine exchanges to securities in the same class. A high grade railroad or utility bond should not be exchanged for a medium grade industrial. Unless this rule is followed the list will soon become unbalanced and the percentages of diversification far from the original schedule. The practice of making exchanges may be carried too far in the effort to show large earnings. Then a downward turn

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Acceptance Business Picks Up

Distribution of Bankers Bills Sets New Record During Year. Discount Market Functioned with Less Dependence on Federal Reserve Banks for Support or on the Call Money Market for Funds Says Annual Report of the Committee on Acceptances.

THE records which have been established in the creation and distribution of bankers acceptances during the past twelve months surpass any accomplishment for a single year since dollar credits were introduced in American banking. Not alone has the volume of business held to a very high average throughout the year but the discount market has functioned with greater strength and regularity with less dependance on the Federal reserve banks for support, or on the call money market for funds.

These favorable developments are the results of years of earnest educational work, first to establish the acceptance business on a firm permanent basis, in accordance with conservative banking practice, and at the same time to create a market for bills that would absorb the constantly increasing volume. While only about 150 of the largest banks are now making regular and active use of their acceptance facilities, the market receives a constant supply of prime bills that are expressive of the best American bank credit.

Extraordinary Growth

ALTHOUGH the number of accepting banks is much smaller than might be expected, there is nevertheless such a quality of the bills of this select group as to give them an international standing and a ready market at the choicest rate.

For the twelve months since the last report the average outstanding total of acceptances has been $1,144,486,890, which is $126,000,000 higher than the average for the previous year and constitutes the record high total for dollar acceptances. In 1927 the yearly average was $771,336,048 and in 1926 it was only $685,000,000, which comparison indicates the extraordinary growth of the acceptance business in recent years. The highest monthly total for the past year was reached on Dec. 31, when the outstanding volume was $1,284,485,780, while the low mark was on June 30, when the volume declined to $1,107,000,000.

There is considerable significance in the upturn in acceptance business as early as the end of June this year, as the seasonal decline in volume usually continues until well into August when the new crop credits begin to swell the total.

With every indication of a period of great business activity throughout the coming fall and winter, it is natural to expect a rapidly increasing use of acceptances in large volume, which, when added to the increase in the normal agricultural demands, promises a total for the season of close to $1,500,000,000.

In the year covered by this report the total volume of business financed by bankers acceptance credits amounted to $7,553,613,474, distributed and compared with previous years as shown in the accompanying table:

	1928-1929 Per Cent	1927-1928 Per Cent	1926-1927 Per Cent
Imports	$2,141,663,370—28.35	$2,068,625,000—31.07	$1,926,808,000—38.2
Exports	2,669,882,391—35.34	2,383,546,000—35.8	1,750,268,000—34.7
Dom. Ship.	105,822,769— 1.40	129,830,000— 1.95	136,188,000— 2.7
Whs. Goods	808,811,236—10.70	988,040,000—14.84	721,292,000—14.3
Dollar Exchange	272,283,594— 3.60	181,762,000— 2.73	156,364,000— 3.1
Shipped between Foreign Countries and Goods Stored Abroad	1,555,150,113—20.58	906,147,000—13.61	353,080,000— 7

The great increase in the volume of business based on goods stored abroad or shipped between foreign countries reflects the growing respect in other markets for the dollar acceptances of American banks. The advance from $353,000,000 or 7 per cent of the total in 1927 to $1,555,000,000 or 20 per cent in 1929 directly indicates the progress American credits are making in foreign countries in the face of keen rate competition in the London and Amsterdam discount markets.

The open market discount rates for bankers acceptances in the New York and London markets have been very closely matched for many months, with a slight preference in our favor, but this advantage in rates may be, and frequently is, shifted from one market to the other on short notice. It is the acceptance service which our banks offer, plus the stability of the dollar as a medium of exchange in world markets, that is mainly responsible for the growing use of American bank credit in foreign countries.

Conditions Improve

THE combined foreign trade acceptance financing in the past year, including credits for imports, exports and for foreign shipment or storage, amounted to $6,366,695,874 or 84 per cent of the total volume. The total volume of foreign trade of the United States for the year July 31, 1928, to July 31, 1929, as reported by the Department of Commerce, was $9,854,931,000, of which approximately 50 per cent was financed by dollar import and export acceptance credits.

Conditions in the discount market continue to improve. The operations of the past year indicate that steady progress is being made to give the bill market a more independent position. The turnover of bills has been greater than in any previous year, exceeding $7,000,000,000. Dealers' portfolios have averaged about $59,000,000, notwithstanding the greatly increasing volume of outstanding bills and against $65,000,000 for the year covered in the last report.

The market requirements for call loans to carry portfolios have been met with less difficulty and at fair rates despite the uniformly high charges for call money on the Stock Exchange. The distribution of bills remains a problem of major importance. While the volume of acceptances purchased by others than the Federal reserve banks, for their own account or for foreign correspondents, is steadily increasing, it is far from satisfactory.

Much Ground to Cover

THAT such a perfectly safe liquid investment, particularly useful to country banks for a secondary reserve, should go begging, shows that there is still much ground to be covered.

Since the last report on acceptance business permission has been granted Texas banks to invest savings deposits in prime acceptances and to offer them as collateral against deposits of public funds; also Illinois life insurance companies have been allowed to invest in bills. Similar action will be urged in other states where the law does not specifically provide for such investments.

The Federal reserve banks have maintained a close contact with the bill market throughout the year. During the fall of 1928 the system's holdings of bills increased steadily until the peak of the acceptance season in December, when it held for its own account $494,000,000.

Holdings were then reduced until on July 10 there were only $65,000,000 in this account. In the same period, however, purchases for the account of foreign correspondents increased from $284,000,000 in December to $440,000,000 on July 10, at which approximate level it has since remained. Thus while the combined holdings of these two outlets for bills was $778,000,000 in the middle of December, taking 60 per cent of all the

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San Francisco Entertains

SAN FRANCISCO is one of those rare cities where the visitors always can happily entertain himself. Beautiful and intriguing in its physical aspects, it is likewise beautiful and intriguing in its historical background. A city of romance in history, it is still a city of romance in the making—a city of pleasure for the vacationist or the tourist, above and beyond that a great commercial center with a wealth of commerce flowing in and out of it.

San Francisco is hospitable. Though its entertainment of the American Bankers Association Convention was on a grand scale the innate hospitality of its people was everywhere in evidence aside from those prepared functions designed to give full welcome to the bankers. The small things of life count mightly, and by the small, acts no less than the big things of life do you glimpse the true character of a people. As highly as the delegates value the city's splendid entertainment program, their pleasant memories will give equal if not greater place to the fine spirit of true hospitality which was everywhere outcropping during the course of the Convention.

Sunday afternoon was given over to automobile rides around the city, with a tea and a reception at the St. Francis Yacht Club. Monday evening there was a tour of the famous Chinatown. On Tuesday there were entertainments and luncheons for women at the Women's Clubs, and on the same afternoon a parade and review of the 30th U. S. Regiment at the Presidio. At 6 p. m. came the subscription dinner of the Alumni Association of the American Institute of Banking. That day's entertainment culminated with an elaborate vaudeville and theatrical entertainment in the spacious Dreamland Auditorium.

Wednesday's program included a Peninsular trip, a garden party and a reception for the visiting ladies, the dinner of the incoming President, John G. Lonsdale to the incoming state vice-presidents, presidents and secretaries of the State Associations and members of the staff of the A. B. A. and finally the grand ball which taxed the capacity of the mammoth Civic Auditorium.

Friday afternoon there was a boat trip around San Francisco Bay and to the Golden Gate, and on Friday, after the close of the Convention a golf tournament.

Twenty-five live committees cooperated in the work of caring for the Convention, the General Committee consisting of :

W. E. Wilcox, Chairman; A. J. Mount, Vice-Chairman; Russell Lowry, Vice-Chairman; F. W. Wolfe, Treasurer; H. E. Rusk, Secretary; Charles W. Collier, Convention Director; E. Avenali, Leon Bocqueraz, John U. Calkins, C. J. Deering, John E. Fitzpatrick, Mortimer Fleishhacker, H. R. Gaither, P. C. Harrison, Harris C. Kirk, W. F. Morrish, E. J. Tobin, George Tourny, Bruce Heathcote.

Investment Trusts and Income Taxes

BANKERS whose customers follow the policy of discussing investments with them may have some bad news to impart before long.

Of late there have been frequent reports that investors who have been holding stock for years, unwilling to realize upon enhanced values because of income tax liability, are now beginning to exchange their shares for participation certificates in investment trusts. The question has been raised to the JOURNAL as to whether or not such transactions would not result in gain for income tax purposes.

An affirmative answer to this question has been obtained from the Treasury by the JOURNAL. How the Treasury looks upon the question is revealed in the following memorandum, which is not a formal ruling, but which is indicative of what may be expected:

"It is assumed that the investment trust referred to is of the type that carries on business in an organized capacity or in quasi corporate form such as to be classed as an association within the meaning of Articles 1312 and 1314 of Regulations 74. Section 701 (a) (2) of the Revenue Act of 1928 provides that 'The term "corporation" includes associations * * *'. Such organization accordingly has the status of one corporation for income tax purposes and the certificates or shares issued by it are to be regarded or treated as shares of stock in a corporation, as held in the Bureau ruling published as G.C.M. 621 in Cumulative Bulletin V-2, page 5.

"The transaction by the investor in exchanging corporate stock held by him for the participating shares or certificates of the investment trust, therefore, has the effect of an exchange of stock in one or more corporations for stock of another corporation. The disposition of the stock previously held by the investor by way of exchange for the certificates or shares of the investment trust is such a transaction as to result in a gain or loss for income tax purposes under Sections 111 and 112 of the Revenue Act of 1928 unless the exchange is such as to constitute one of the exceptions to such general rule provided by Section 112 as a result of which no gain or loss is recognized for income tax purposes. The only one of such exceptions which appears to be material to the case at hand is that provided by subdivision '(b) * * (5)' and subdivision '(j)' of Section 112 which provide as follows:

"'Transfer to corporation controlled by transferror. No gain or loss shall be recognized if property is transferred to a corporation by one or more persons solely in exchange for stock or securities in such corporation, and immediately after the exchange such person or persons are in control of the corporation; but in the case of an exchange by two or more persons this paragraph shall apply only if the amount of the stock and securities received by each is substantially in proportion to his interest in the property prior to the exchange.'

"Corporate stock is, of course, a form of property. In case the transfer of the corporate stock in question to the investment trust in exchange for its certificates or shares is such as to meet the requirements of the exception provided by the above-quoted provisions of the statute, no gain or loss would be recognized as a result of the exchange, but otherwise the transaction would be such as to result in a gain or loss for income tax purposes, as above outlined."

The Modern Investigation

AMONG the conveniences of the day consider the investigation, not in public affairs, especially governmental affairs.

If there is an accident, the forefront of the report is the announcement of the investigation. So popular is the institution that not infrequently many investigations start off neck and neck, heralded like the start of the Great English Derby, but where they run to and when and where they finish seems to be a matter about which the public little cares. Generally it is the start of the investigation that is the big thing.

If there is a condition of public safety, public welfare, or some long continued public abuse that obviously should be corrected, or reformed, we, instead of setting about to reform it, begin to investigate it as if no one knew anything about it, even though everyone knows what the remedy is and how to apply it.

The investigation takes time, and that is one of the appealing qualities. It is a dignified, orderly institution. It finds facts that perhaps for years have been as plain as a skyscraper on a spring morning. It has a sedative effect upon public opinion, eases the conscience, answers a feeble demand that something be done about something or other, and meanwhile gives the public a chance to find something else in which to interest itself.

It stays criticism, takes the edge off of critical public opinion, gives a sense of relief and refreshment that at last things have begun to be moved toward better conditions. There is something so reassuring about the investigation that half the world seems not to distinguish between investigating a public abuse, or a public evil and the actual abolition of the wrong, under investigation.

It is not to be confused with analysis, which is frequently a much needed and fruitful operation. Perhaps the chief

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Banking Evolution in America

(*Continued from page 310*)

in terms of our own experience and tradition and transform it to the requirements of our own more fluid and dynamic life. When our financial education had been carried so far that we were prepared for the legislation which took shape in the Federal Reserve Act we did not set up a central bank. We provided for a centralized banking system which should be a coordinating factor of cooperation between all of the banks of our entire banking community.

The statement, often heard, that we should take lessons from European banking systems and concentrate into a relatively few large banks through the country at large with manifold branches is not well founded. True, it may be wise to strengthen through consolidation and consequent stronger capital accounts within prescribed geographical limits and within localities where kindred interests assure a mutual and related benefit; but the vastness of our country with its great geographical distances and varying sectional interests, pride and prejudice, presents a problem wholly different from that of any European nation.

Tribute Has No Place Here

THE branch manager of the English banks would be unacceptable to the American citizen who wishes always to deal in banking with one whom he regards as having greater special knowledge but his equal in other respects. Small deposits cannot here be fed directly to the great urban centers. Tribute and the feudalistic overlord have no place in American banking when the hearts of the people are consulted and any banking system not approved in the hearts of our people has no place in our present nor in our future. Great changes in system in this country rarely take place by creations at the top; they come from a determined wish in the hearts of the great body of citizenship which eventually expresses itself. We have been too long nurtured on independent doctrines to permit a final concentration of that which in its essense belongs to countless individuals, namely, the deposit account.

Nor can the French system, which centers in Paris, be presented as desirable for us. The leadership of the great banks in France is blindly followed, but where is there a French farmer or local merchant akin to our farmer or local merchant, and where is our small manufacturer or investor akin to the Frenchman of equal rating who relies on Paris and unhesitating and unquestioning follows its banking dictates?

And in Germany—another wholly different picture offers. The paternal industrial bank flourishes there, a creation unknown to America until the last few years when some of our great banks have established adjuncts whereby they have taken a leading part in creating and fostering industrial enterprises. This business is one which must be done, but whether by banks of deposit or their adjuncts or by private entrepreneurs is for the future to determine. It seems certain that the banking institution which is prejudiced by its own creations cannot be the choice of the independent local banker as a depository of his reserves or his surplus funds and that the accumulations of capital represented by deposit accounts in all sections of the country which should be maintained in as liquid a form as possible will not, without the independent local banker's consent, be used extensively in promoting industrial undertakings.

So it would seem that no European system has any real part in our banking life as a whole, although we may select from it whatever may be suited to aid or to balance our own devices or ideas. We have worked out over a long period our own banking development. It has been steadily improved and there is encouraging room for further improvement; but it has always maintained the independence of its individual parts, be they large or small, and we are not ready to surrender our independence.

The larger will become larger and, we hope, stronger. The smaller will become larger and, we hope, also stronger, but independence in the best meaning of the word and within proper local areas should be cherished and maintained. Strengthen the smaller bank, unify and consolidate within localities, foster direct dealings between clients and those bankers who have their own money at stake and take just pride in the prosperity of their surrounding territory. That, plus a close and friendly association with a reserve city bank, earned by years of affiliation, is the ideal situation.

In Fraternal Partnership

WHAT shall we say of the development of the holding company for the ownership of bank stocks if its avowed purpose is only to control banks throughout the country and direct their policy? Even as an interim step toward a branch banking expansion which may be legalized I believe it to be a development without promise. The banker far and wide throughout the United States cannot take kindly to the ideas which it embodies.

Is it to be carried out to the point where our bankers are asked to divide themselves; on the one side those who wish to control the vast power of much money for purposes of their own, and on the other side those who cherish independence of thought and action joined to close relationships, more intensified even than in older days, with correspondents bound together as partners in aims and ideals, who have their own money and reputations at risk and who believe in the independence of their territory and depositors? If so, it is with this latter class that we wish to align ourselves and to serve them to our utmost ability in fraternal partnership. Do we want to see banking become so monopolized that a given section shall be visualized as a source of tribute only, with its industries and merchants not regarded as individuals and with a remote control able to lay its heavy hand on local industry and trade?

Trusteeship is becoming a common and much overworked word. It is to be feared sometimes the part it occupies and must ever occupy in our relations to our customers and depositors, if not overlooked, is not sufficiently emphasized. Our primary responsibility as bankers is to our depositors who have entrusted us with the care of their funds. Experience has shown that this responsibility when well exercised can be profitable to stockholders. Possibly at times the profit side of the matter is too much in mind. We are among the few corporations who boast of their debts, the loans to us by our depositors, called deposits. The strength of the capital structure and its relation to deposits is apt to be submerged in the grand figure of "total resources." The duties and responsibilities owed by us to our depositors are very real and our care should be how best we can serve those who have become our customers. That it is a trusteeship in a very real sense with all the implications of the word cannot be stated too strongly.

Indestructible Relations

I CONTEND that we already have in our banking system what I believe to be more than an equivalent of foreign branch banking and its development will be consistent with our traditions. Long prior to the creation of the Federal Reserve System banks throughout the country established relations with banks in the principal cities as depositories for portions of their funds; as correspondents who could be consulted about all kinds of problems and to which the depositing banks could turn for cooperation in meeting the credit requirements (and for many decades the currency requirements) of their vicinities.

While the establishment and development of these correspondent bank relations began with the national banks as a direct result of the provisions of the National Bank Act for the deposit of certain percentages of reserves with banks in reserve and central reserve cities, the need for these correspondent bank relations grew far beyond the needs for reserve depositories alone. Proof of what purpose these correspondent bank relations served was furnished by the action of state banking institutions which also established their position with strong correspondents and this proof has been emphasized by the experience we have had since the Federal Reserve System began to function.

One of the contemplated purposes of the framers of the Federal Reserve Act was to do away with the deposit of reserves in correspondent banks and to "keep bank funds at home." Have correspondent bank relations ended? Most

certainly they have not. And why? Because correspondent banking has grown to meet needs and requirements of our banking community which have cemented correspondent and depositing bank relations almost indestructibly.

It is to correspondent banking, if I may be allowed to use a phrase which carries its own definition to all bankers, that, in studying our banking history and our banking system as it exists, my thought turns for the assurances that will safeguard and preserve the individualism of American banking which I believe we all regard as indispensable to the health of the American economic future if we as bankers are to serve our people as well in the future as we and our predecessors have served them in the past. The growth of correspondent bank relations is a normal economic evolution of the individualism of our banking. I think that the line of advance to still better banking and the provision of a complete service suited at all times to make its contribution to the realization of American opportunity and the diffusion of increasing prosperity lies in the normal evolutionary development of correspondent banking.

Branch banking, should it become legalized, may possibly give us better mechanical banking. Nobody knows better than we do that banking is not an enterprise of formulas and machinery. It is profoundly involved with the human side of life, with people engaged in the business of making a living. Let us have all of the better banking machinery that our ingenuity can devise and our judgment approve, but let us not place our confidence in the perfection of banking mechanism; for if we should, our banking system would become increasingly rigid and lose the flexibility which is indispensable to the service that banks have to perform. For the preservation of that essential flexibility, I believe our correspondent banking is to be most admirably adapted.

The American Tradition

OUR correspondent banking safeguards the individual initiative and the independence of banks everywhere. It is questionable if extensive branch banking is compatible with the preservation of the values which our individualistic banking system has fostered. Correspondent banking certainly is compatible with the preservation of these values precisely because it has fostered them.

I think it almost not too much to say that close relations formed by the independent banks themselves with strong institutions of their own choosing in the financial centers of the country, now more than ever, can contribute to the protection of those popular liberties which are associated with our American tradition of the independence of the individual and the right of every individual citizen to equality of opportunity. It seems to me that in these days of economic concentration and consolidation our banking system, with its continuing achievement of increasing cooperation by thousands and thousands of independent banks, exemplifies more than does any other form of our economic institutions the basic American idea.

That idea has been illustrated in our national attitude toward other nations, governmentally interpreted and expressed. Our position in the world today is not one of isolation and aloofness; it is a position of entire independence of entanglements of formal alliance but of a readiness to cooperate for the advance of every essential interest of the world. This, it seems to me, has been the relation which our banks hold toward each other and toward the American public and I believe that the development of this sort of banking can go on to make the position of our banking system still more effective as an exhibition of cooperative independence.

Unperceived Potentialities

I AM avoiding statistics. To bankers there is significance in the total number of banks that can now be counted in an extension of branch banking beyond strictly limited localities. The figures of branch banking expansion which are frequently cited are small when set against the thousands of banks grouped together in relations with correspondent banks.

Statistically stated, the branch banking movement to date is very limited. Its import is all that I am considering here. The point which I seek to make is that we have not perceived the potentialities of correspondent banks relations and that it is imperative to perceive them and to take steps to realize them. All the separate banks in our correspondent bank groups have perhaps only a little less in the way of active relations with each other than have the branches of any one of the great banks abroad where the principal relation of the branch is, after all, to the head office.

Precisely, the principal relation of our depositing banks is to their correspondent banks; but is there any reason why relations cannot be cultivated between the depositing banks in a group headed up by the leadership of correspondent banks in reserve and central reserve cities. I would like to direct attention to the answer which should be returned to this question and in thinking of it I am sure that many things will come to mind which can be done to extend and improve correspondent bank relations so that, if I may paraphrase in part and in part quote the language of the constitution of the New York Clearing House Association, the interests of the correspondent banking groups may be promoted and so that all banks associated in correspondent bank relations may assure the "maintenance of conservative banking through wise and intelligent cooperation."

More Complete Service

TELL us how we may all work together for such a purpose and what we, as correspondent banks, may do to help you give a more complete service to your communities. In what new ways may we cooperate with you to strengthen your own independent position.

If you are adding to your service and building up trust departments, for example, can we help you out of our long and large trust experience? Can we help you to make sound loans which are the real guarantee of bank deposits? Can we help you to make sound investments and keep your investments liquid? Should there be conventions of depositing banks under the leadership of the correspondent banks with which they are associated so that out of such conventions may come closer affiliations between the depositing banks themselves?

Should there be some form of conference committee in each such correspondent banking group which can act as a clearinghouse for the ideas and problems of members of the group? Customarily the banks which are members of the Federal Reserve System call public notice to this membership in their letterheads, their literature and their advertising. Do you or should you, as depositing banks, in the same way set forth the names of your correspondent banking institutions?

A Beckoning Opportunity

THE service which correspondent banks render to their depositing banks is well known. There is ample room and a beckoning opportunity to build up stronger and closer relations of mutual helpfulness to better service by our entire banking system. Good banking has had to be done in the local communities by the banks which have established good relations with correspondents in reserve and central reserve cities. The nature of the balances maintained by the depositing banks, the quality of the loans and discounts offered to the correspondent banks as excess lines or rediscounts, the way in which loans are handled by the depositing banks; all that goes to constitute the record of correspondent relationships makes for good banking everywhere.

It certainly makes for as good banking all around as could possibly be the result of destroying the individual integrity of banks by absorbing them as branches under a distant control. So far as concerns the solidarity of the banking community, the historical relationships of correspondent banks are cemented by strong, invisible ties of loyalties and business friendship arising out of years of fair and honorable dealing and mutual confidence. What ties of branch banking can be as strong as these? What can we do to make stronger the ties which bind together men proud of their independence, their individual integrity and their freedom of action?

The relations of depositing banks to their correspondents have been a normal, natural evolution encouraged by the spirit of our banking laws and the political and economic traditions of our country. These relations have fostered the initiative and independence of our banks everywhere. The independently owned and controlled bank can do far

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A few well-known users of Lamson Baby Tubes:

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Union Trust Company, Cleveland

Bank of Italy, San Francisco

Federal Reserve Bank, Kansas City

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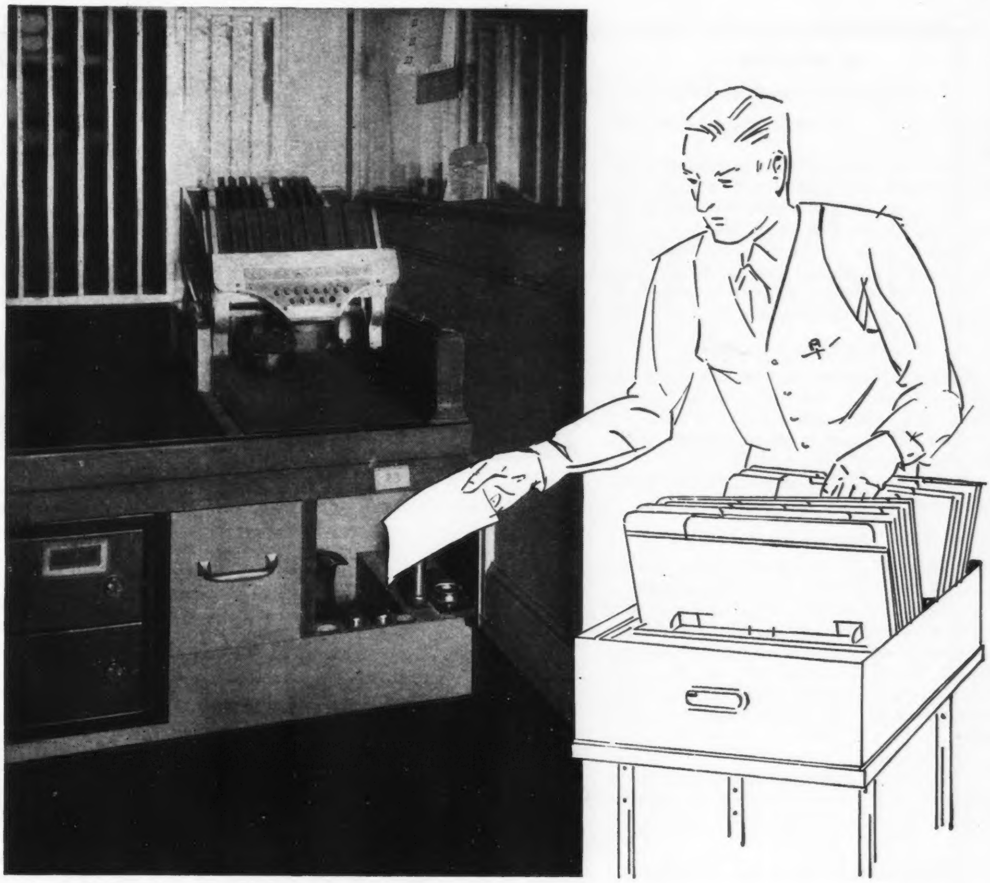

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Down beneath the window—away from prying eyes—rests the key to the safety of your bank's funds. More important than the burglar alarm button on the floor! More important, yes, than your steel-clad vaults are Lamson Baby Tubes for they alone can assure the utmost safety in the transaction of every item in your daily business.

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Put your Bookkeepers at your Teller's elbow

Committees and Commissions

(*Continued from page* 380)

curity—First National Bank, Los Angeles, Cal.

John D. Rising, vice-president, The Chase National Bank, New York, N. Y.

Edwin R. Rooney, vice-president, First National Bank, Boston, Mass.

Francis H. Sisson, vice-president, Guaranty Trust Co., New York, N. Y.

Director—Gurden Edwards, 110 East 42nd St., New York City.

Travelers Cheque Committee

Rome C. Stephenson, vice-president, St. Joseph County Savings Bank, South Bend, Ind., chairman.

Harry J. Haas, vice-president, First National Bank, Philadelphia, Pa.

Julien H. Hill, president, State-Planters Bank & Trust Co., Richmond, Va.

Vice-Presidents for Territories

Alaska—Geo. W. Hutchinson, president, First National Bank, Fairbanks.

Canal Zone—Geo. S. Schaeffer, manager, Chase National Bank, Cristobal.

Hawaii—A. D. Castro, president, Union Trust Co., Honolulu, T. H.

Philippine Islands—William T. Nolting, president, Philippine Trust Co., Manila.

*Porto Rico.

*Elected by members in attendance at Porto Rico Bankers Association Convention which has not yet been held.

Resolutions of 55th Convention

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troller of the Currency has expressed views in favor of branch banking which may lead to the appointment of a congressional committee to investigate the subject; and, whereas we believe all classes of membership in the American Bankers Association should be represented in any further study of the matter to the end that sound conclusions may be reached as to what system or systems would best serve the economic needs of the country,

Therefore, be it resolved, that the Economic Policy Commission be instructed to continue its investigation of this matter and represent the American Bankers Association in seeking cooperation with any committee which may be appointed by Congress on the subject; that such commission be charged with the duty of watching all developments in the interest of our members, and that it report its conclusions and recommendations to the executive council at the spring meeting.

We express our sense of deep obligation to our retiring president, Craig B. Hazlewood. We call the attention of the members of the association to the extremely valuable contribution he has made to the banking business in furthering the principles of better bank management. The program of better bank management which has been the keynote of his administration has been responsible in no small measure for the widespread progress in the past year in the direction of more scientific bank operation and management.

Hosts and Speakers

THE Association extends its sincere thanks to the bankers, hotels, press, ladies and the general public of the city of San Francisco for the manifold kindnesses and gracious hospitality extended to all of the delegates and their families. Likewise, the Association is indebted to the speakers at the various sessions of the Convention, Divisions and Sections, who, by their carefully prepared addresses, have helped to make the Fifty-Fifth Annual Convention of this Association one of profit and enjoyment to all those who were privileged to be present.

Jackson E. Reynolds, President, First National Bank of New York

Melvin A. Traylor, President, First National Bank of Chicago

American Members of World Bank Committee

FROM the two greatest financial centers in the United States—New York and Chicago—were chosen the American bankers who represent this country on the organization committee of the Bank for International Settlements to be set up in accordance with the Young plan for German reparations payments. They bring to the committee the breadth of American financial opinion.

Melvin A. Traylor, president of the First National Bank of Chicago, is a former President of the American Bankers Association. Jackson E. Reynolds, president of the First National Bank of New York, is a member of the Commerce and Marine Commission of the Association.

Appointment of the two American bankers to the committee was made by the Governors of the Six Central Banks of Europe who comprise the organizing body for the international bank. Mr. Traylor and Mr. Reynolds were proposed for their posts by J. P. Morgan and Owen D. Young, the unofficial delegates of the United States to the conference which drafted the Young plan.

The status of the American members of the organization committee is also unofficial. The Young plan contemplated the participation of the Federal Reserve System in the creation and administration of the Bank for International Settlements. The United States Government, however, refused to sanction Federal reserve participation. Hence, Mr. Traylor and Mr. Reynolds stand upon the organization committee in an advisory capacity.

New Book

DESCRIPTIVE LIST FOR USE IN ACQUIRING AND DISCARDING UNITED STATES GOVERNMENT PERIODICAL MIMEOGRAPHED STATEMENTS. Compiled by the Bibliography Committee of the Financial Group of the Special Libraries Association. Published by Special Libraries Association, Providence, R. I. 76 pages. Price $1.75.

A list of preliminary reports and statements issued by the government at intervals of less than one year with a guide to those that must be kept and those that may be discarded when superseded by later data. A handbook for bank libraries.

The Condition of Business

The Volume of Retail Trade Remains High But a Recession Appears in the Key Industries. The Credit Problem Grows More Complex as Brokerage Loans Expand and Foreign Banks Raise Their Rates Sharply. New Trends in Financing Are Evident.

THE past month has been marked by continued heavy production in industry, active moving of crops in the agricultural sections and a swinging of trade into the fall and winter lines. Reports coming in from different sections of the country indicate that this year there did not seem to be as substantial seasonal expansion as usually takes place, and business generally might be said to lack snap.

Without attempting to prophesy, but considering plain facts, it must be admitted that there are a number of elements in the business situation that are not favorable. All three of the so-called key industries are now pointing downward. Steel mill operations, orders and prices have dropped materially. Automobile production, except Ford, has failed to measure up either to last year's level or to current estimates. Building construction is severely depressed because of dearth of mortgage money.

Distribution of goods is holding up very well and shows a normal growth if comparable figures are taken, although nothing like the 30 per cent or more that might be supposed from the aggregate sales of all reporting chain stores and mail order houses, including as they do the results of numerous acquisitions and additional stores opened during the year.

The Tightening of Credit

PROBABLY the most serious threat to business is the constant tightening of credit, which has brought interest rates in this country up to panic levels and is now being followed by upward revisions in central bank rediscount rates the world over. A 50 per cent increase in brokerage loans annually may, in this exceptional economic era, be regarded as only a healthy rate of growth, but it is not doing business any good and even the stock market has been unable to make any progress.

The bond market does not yet show any real signs of life, and in its place we have the flotation of investment trusts, holding companies, trading companies, etc., that are spreading like an epidemic. Time was when representative corporations carried on their operations as independent organizations; now everyone seems to find it necessary to merge or to tie up with investment companies. It is hard to say whether such moves are constructive or defensive; people are asking where they will lead to and no one can answer; it is well-nigh impossible to even understand the economics of these developments because the movement of credit is so complex.

When the sea of business becomes choppy after such an extended spell of fair weather it need not necessarily cause any alarm. The wise captains will not become panicky, nor will they go down to hide in their cabins where they cannot see the clouds on the horizon. Instead they will have the sails trimmed, make sure that everything is ship-shape, direct the helmsman to keep a firm hand on the rudder and thus be prepared to ride through the storm when, and if it comes. The present slowing down of the basic industries may be only temporary, and if conservative policies are followed the eventual recovery will be all the more vigorous.

The Key Industries

OF the three industries that have been the backbone of the nation's prosperity in recent years the developments in the motor field are particularly worthy of note because of the importance of that line measured by volume of sales, employment of labor and purchase of materials.

Production of automobiles has fallen somewhat under expectations. Complete statistics now available for August show a production of cars and trucks in this country and Canada of 513,843 units, compared with 517,792 in July, whereas earlier reports from the trade had indicated that August output would approximate 550,000. Of the August total Ford Motor Company accounted for 206,209 or more than 40 per cent. Following are the figures for monthly production this year (September estimated) for all companies and for those which are members of the National Automobile Chamber of Commerce, the remainder being attributed almost entirely to Ford:

PRODUCTION OF AUTOMOBILES AND TRUCKS, UNITED STATES AND CANADA

1929	Total Production	N.A.C.C. Members	Ford and "Others"
January	422,537	269,211	153,326
February ...	497,639	343,954	153,685
March	625,843	446,279	179,564
April	663,237	465,955	197,282
May	635,630	429,092	206,538
June	566,867	373,965	192,902
July	517,792	327,650	190,142
August	513,843	307,634	206,209
September ..	500,000	300,000	200,000
9 mos., 1929.	4,943,388	3,263,740	1,679,648
9 mos., 1928.	3,672,771	3,206,832	465,939
Increase ...	1,270,617	56,908	1,213,709

From this table it will be seen that since the peak production last April there has been a decline each month that brings September 25 per cent below the peak. Output of N. A. C. C. members, however, has declined 35 per cent, and the months of July, August and September (estimated) ran under the corresponding months last year while that of non-members, principally Ford, has increased steadily. Based on the nine months figures, with September estimated, production in 1929 to date shows a gain over 1928 of 1,270,000 vehicles or 35 per cent, but of this increase Ford accounted for 1,213,000 vehicles or 95 per cent.

Considering the fact that total production in the first nine months of 1929 has already surpassed that of the entire twelve months of 1928, the previous record year, and the fact that inventories of both new and used cars are reported to be heavy, the trade has suggested that the seasonal curtailment of operations from now on might be sharper than usual this year. Parts commitments, it is said, are being made for only a month or six weeks on the whole, a further indication of possible curtailment.

Building Handicapped

BUILDING construction has been handicapped for a year now by tightening of the money market, but the extent of the curtailment does not appear to have been fully appreciated because of the fact that published statistics showing contract awards have been maintained to within 10 per cent of last year's figures, due to including engineering works, public utility installations, municipal improvements, etc., which can be financed by stock issues or for which funds had already been provided. Residential construction, however, in the first eight months of 1929 declined 26 per cent below the corresponding period of 1928, and a further slowing down is indicated by the data on contemplated projects, building permits, and plans filed.

Steel mills which depend on automobiles and building as well as a great diversity of less important demands have recently cut production schedules sharply, for unfilled orders on the books have been running down for several months and incoming business is not sufficient to keep up the 90 per cent of capacity rate that was held for over eight months. Railroad buying has been good, both for passenger and freight cars, and locomotives to be constructed by the equipment companies, and in orders for rails placed direct, and the demand from shipbuilding yards continues to mount as the revival of that

industry gains headway, but these are the exceptions.

Among other industries conditions are reported to be fairly satisfactory. Oil production is being curtailed somewhat and, if continued, may prevent any further price cuts of gasoline and crude petroleum. Despite record stocks in storage the consumption this year has been fully up to expectations and about 15 per cent larger than last year. Readjustments were necessary in the cotton goods, rubber tire, aircraft and engine, agricultural implement, and other industries, but are being made without serious disturbance and furnish excellent examples of what is possible with intelligent cooperation and management.

Money Still Rising

MONEY markets during the past month have been characterized by somewhat narrower fluctuations, firmness in all types of rates, further increases in some, and another upward movement of the Bank of England discount rate and that of other central banks. The contrast between interest rates at present as compared with one or two years ago is striking, as will be seen from the following typical quotations:

PREVAILING MONEY RATES IN NEW YORK

October 1	1927	1928	1929
Commercial paper..	4	5½–¾	6¼–½
Call loans	4	7	9
Time loans.........	4¼	7¼–½	9¼
Bank acceptances ..	3⅛	4½	5¼
Rediscounts	3½	5	6

Commercial demand for funds has resulted in an almost uninterrupted increase in bank borrowings since the first of February, closely following the trend of previous years but running above 1928 by a widening spread. These loans reflect the activity of general business, but a special requirement this summer was occasioned by the accumulation of last year's wheat, followed by the rapid delivery of new wheat by farmers when prices soared late in the summer. It is not believed that the increase in these loans represents any serious piling up of inventories, for commodity prices have not shown any upward movement and efficient railroad service has made it unnecessary for merchants to depart from the accepted practice of buying for the immediate future only.

Further evidence of the abnormal strain of the money market is the price of 4⅞ per cent fixed on the Treasury offering of certificates in September. This issue amounted to $500,000,000 with a nine months maturity and was heavily oversubscribed. The previous issue in June carried a 5⅛ per cent rate, but the more recent securities are exempt from surtaxes as well as normal taxes.

Money rates are moving up all around the world. Since the first of the current year there have been eighteen rate changes by important central banks in thirteen countries, and every change but one was upward. England now has a 6½ per cent rate, this having been previously raised to 5½ per cent earlier this year; Germany reduced its rate from 7 to 6½ per cent in January and in April raised it to 7½; Italy increased its rate in January, and again in March to 7 per cent; the Netherlands increased its rate to 5½; Poland to 9; Austria to 7½; Hungary to 8; Danzig to 7; Roumania to 9½; Bulgaria to 10; Denmark to 5½; Norway to 6, and Sweden to 5½. Because of the attraction of high New York rates for liquid funds it has been necessary for other countries to take these defensive steps to keep their reserves from becoming so seriously depleted as to endanger their national banking and currency systems.

The Year's Bank Changes

PRIOR to 1914 the person wishing to study the movement of credit had only to follow the published statements of the commercial banks, but now the condition of the Federal reserve banks must be given attention because they complement and supplement the functions of the independent banks. Within the last year or two a third factor must be considered, namely the funds loaned by those other than banks. Selecting only the important items, the respective amounts for the three classes of credit at the end of September this year and last are as follows, with the changes indicated:

CHANGES IN CREDIT OUTSTANDING DURING THE PAST YEAR
(000s Omitted)

	Sept. 26, 1928	Sept. 25, 1929	Change
Federal Reserve Banks—			
Bills discounted.	1,011	944	— 67
Open market purchases ...	263	264	+ 1
Government securities	229	152	— 77
Total bills and securities	1,508	1,375	—133
Reporting Member Banks—*			
Commercial loans	9,058	9,569	+ 511
Secured loans...	6,811	7,682	+ 871
Investment holdings	6,016	5,489	—527
Loans and investments ..	21,885	22,740	+ 855
Non-Banking Lenders—			
Loans to brokers	2,001	3,680	+1,759

*1929 figure of Sept. 18.

From this table it will be seen that the Federal reserve banks have discounted $67,000,000 less bills for member banks than a year ago and their holdings of government securities are $77,000,000 lower, while open market purchases of acceptances are practically the same, so that the Reserve banks are putting $133,000,000 less money into the market than at the same time last year.

Reporting member banks have increased their commercial loans by $511,000,000 and their secured loans by $871,000,000, but have liquidated their investment holdings by $527,000,000, so the net result is that $855,000,000 more bank credit is being supplied than one year ago.

Loans to Brokers Up

NON-BANKING lenders, such as corporations, investment trusts, foreign interests, etc., have increased their loans to brokers by the sum of $1,759,000,000 during the year. This is not in the strict sense banking credit and it cannot be said that this figure must be included when calculating the amount of bank credit expansion. Nevertheless, it serves the same purpose as bank credit, and if it should be withdrawn for commercial uses the banks would have to take over the loans and at the same time set up reserves against these deposits that would be thrown into the banking system. Brokers' loans by outsiders now constitute 55 per cent of all loans made by or through New York banks, and the percentage would be even higher if one could ascertain the funds that are loaned for out-of-town banks for the account of non-banking lenders.

It is amazing to find that brokers' loans from "others" are four times as large as the amount that the more than 8000 member banks throughout the United States are borrowing from all twelve of the Federal reserve banks combined. It is this third, or as it has been called, "invisible banking system" that has mystified the banking world. Its growth has fed on the bull market in securities, and it in turn feeds the bull market by supplying credit. Apparently there is no end to the scheme of offering stock to shareholders at less than the market figure, requiring them to borrow the money to pay in subscriptions, then relending the money back to Wall Street at an average of 9 per cent, which is a dead-sure rate of return twice as large as many persons thought the railroads were guaranteed by the Transportation Act of 1920.

Securities Markets

WITH all the increase in brokerage borrowings, amounting to $1,477,000,000 since the mid-year or at the rate of nearly $100,000,000 per week, the stock market has made very little upward progress. A recent checking over of prices shows that of all issues listed on the New York Stock Exchange

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Major Financing in September

Issue	Amount	Rate	Due	Price	Yield
Shell-Union Oil Corp. s. f. deb.	$50,000,000	5	1949	100	5.00
Central States Elec. Corp. deb.	25,000,000	5½	1954	99½	5.04
Nor. Ind. Pub. Serv. Co. 1st & ref. D..	15,500,000	5	1969	94	5.375
Tri-Utilities Corp. conv. deb.	12,500,000	5	1979	99	5.07
State of Illinois.....................	11,000,000	4	1945–59	...	4.40
Chicago Sanitary District............	10,650,000	4½	1930–49	...	5–6
C. & N. W. Ry. Co. eq. tr.	8,775,000	4½	1930–44	...	5.125–6
Minas Geraes, Brazil, sec. ext. A.....	6,365,000	5	1930–67	...	4.60–5.75
State of Missouri....................	7,500,000	4½	1948–52	...	4.40
City of Jersey City, N. J.	6,365,000	5	1930–67	...	4.60–5.75
City of Milwaukee, Wis.	5,626,000	4–5	1930–49	...	4.50–5.50
City of New York....................	5,000,000	6	1929	...	5.75

Trust Service

(*Continued from page* 332)

guard the shareholders against over issues; or transfer agent to facilitate the issuance of stock in conformity with the rigid rules of the stock exchanges—in fine, that in all of its wide range of endeavors, the underlying principle of corporate trust activity is conservation, protection, painstaking and efficient service, cordially, conscientiously and constantly supplied.

Schooled in the practice of probate law; expert in financial matters; familiar with the handling of stocks, bonds, real estate and life insurance; functioning at times as an investment committee for the speedy and safe investment of trust funds; auditing and revising at other times the securities left by a testator or subsequently acquired and held in trust; using the bank's superior credit information, always ready at hand, to pass judgment on questionable notes and other evidences of debt; having at instant command the combined experience of seasoned bankers to solve the ever new and intricate problems of modern taxation and finance; available at all times during business hours; never incapacitated by illness or absence and enduringly strong as to financial responsibility—the qualified bank as executor, trustee, guardian or depositary stands commanding and paramount in the field of fiduciary service.

The One Big Opportunity

VERILY, in this new era of massive industrial and commercial structures; in this day of our complicated and highly specialized civilization, departmental financial emporiums are inevitable, and the one big opportunity of banks for further profitable development and of public benefaction lies in the field of trust service.

Having established the growing recognition of, and the ever increasing demand for, corporate fiduciary service, it would seem to follow that every bank of any size or importance in the country should seek to equip itself to handle trusts. It should do so not only because of the material profit to be directly derived from a trust department when once well organized and properly developed, but also because such a department will insure the retention of a bank's depositors who might otherwise be attracted to a competitor in their search for this service. It is not only advisable, but important, therefore, to regard the trust department as a most effective cementer of a bank's general business. It operates at once to retain present depositors, and the likelihood of retaining the patronage of their succeeding generations is not only a reasonable expectation but almost an absolute certainty.

This leads to a brief consideration of what should be the proper attitude of a bank's general management toward the trust department.

In the first place, as I view it, the trust department should be regarded

neither as an "ornament" nor as a "side-show." The modern bank should see to it that its trust department is placed at least on a par, both as to prominence and importance, with its general banking departments; it should exercise great diligence and care in the selection of its trust officer; it should not relinquish its initial interest in the department or cease its cooperation with its trust executive after his selection; it should not leave the development work to the department alone, but every general officer and employee, under the guidance of the trust officer, should at once undertake to learn enough about the broad functions of the department and the superiority of its service so as to be able to recognize and to intelligently direct a prospective piece of trust business as soon as it appears; and above all, its general management should be patient and tolerant in its expectations of huge profits.

It frequently happens that trust departments are tucked away in the basement or in some other remote and inconspicuous place in the bank, and that little or no effort whatever is exerted on the part of the institution's general officers or contacting personnel to feature or to build up the new department. Dissatisfaction or disappointment is then later expressed because of the slowness of the progress made, and erroneous appraisements are indulged in regarding its worth and potentialities. In this day of hurry and scurry the uninitiated public must be sold on everything new, and the only way to get over the message that a new service has been added by a bank is to feature it strongly, both in the prominence, propriety and attractiveness of its quarters and in the bank's campaign of publicity and advertising.

Jealously Maintained

A BANK, therefore, should not elect to enter the trust field unless it intends to make the trust end of its business a major department of the institution. In the establishment of a trust department, a bank's first concern should be to so equip and develop it as to be prepared to render a type of service that will insure the highest degree of safety and satisfaction to its customers and thereby reflect credit not only upon itself but likewise upon every other trust company and trust department in the country.

And in this connection, I am pleased to proclaim—to the enduring credit and honor of this country's banks which have already entered this fertile field—that no charge of negligence or loss has ever been successfully prosecuted against any bank engaged in the administration of a trust. This is indeed an enviable record and one which must be jealously maintained.

As to the selection of a suitable trust officer, too much emphasis cannot be laid upon the essential qualities which he should possess. He should be, above all, a man of recognized sterling character, and in addition should possess executive ability, initiative, sound judgment, a fair

knowledge of banking, investments and law, and be blessed with some imagination and plenty of soul. The quest for such a man may, on first thought, seem almost hopeless, and in candor it must be admitted that it is no easy task to find one—not already a trust company employee—who will at once measure up to all of these exacting requirements.

Made Bankers Out of Lawyers

I THINK that the experience of my institution in this particular is eminently pertinent, and I therefore make bold to cite it. We are today exercising trust functions through every one of our 292 offices, spread over 166 cities of California, and, with but a scant half dozen exceptions, every one of our trust men and women have been developed within our own organization. Our trust department is only twelve years old and the major part of its development, both as to business and personnel, has taken place within the last six or seven years.

We first chose intelligent men and women who possessed the natural qualities set down among the requirements I have here enumerated, and then we set to work building them up in the qualities or essentials which they lacked but which are readily attainable and acquired through application and study. We have made lawyers out of bankers and bankers out of lawyers, and in not a few instances we have made both bankers and lawyers out of just plain good men and women.

It has been my observation that while some uninitiated bankers are inclined to underestimate the importance of the trust department, more of them are prone to expect too much from it, too soon.

The trust department is in truth a potential gold mine which offers almost inexhaustible possibilities as a profit maker, but it requires much intelligent, painstaking and constructive effort and plenty of patience and cooperation before pay-dirt is struck. I offer this out of sympathetic regard for such unfortunate trust officers as there may be in the country today whose superior general officers may be a little too restive and unreasonable at times in their expectations of immediate fabulous profits. I have known some managers of trust departments who have been driven, because of this unwarranted clamor for immediate and larger profits, to knowingly accept trusts fraught with the probability of most disastrous liability to the bank. This of course should not be. A bank's first concern in the operation of a trust department should be to maintain the highest and safest standard of trust service, and this can only be done by carefully scrutinizing every bit of trust business before accepting it, and by careful and expert handling after it has been undertaken.

As to what would be reasonable to expect by way of profits from a trust department, I believe it to be the consensus of men qualified to voice an opinion that normally no profit should be expected for at least the first five

years of operation, and that in cases where such a department has been established over a period of years and has succeeded in building up a volume of business, it should attain an operating ratio of at least 50 per cent, so that of every dollar taken in at least fifty cents should represent the net profit to the institution. The potentialities for profit from this source, over the years, may therefore be said to be most encouraging and practically unlimited.

In this day of keener banking competition and the insatiate demand of the public for more and varied gratuitous personal service, it is not only advisable but almost necessary that banks turn to this newly cultivated field of the trust department as a certain and most effective means of restoring narrowing banking profits.

Another intriguing feature of corporate trust service, in addition to the most appealing human side of the business, lies in the fact that the idea of competition is supplanted by the idea of coöperation and that in the trust business there is no competition in the real sense of the term. In other words, every success achieved and work well done in this field by one bank inevitably inures to the benefit and profit of all. This great service needs only to be understood to be appreciated, so that the sooner its message can be spread among our bankers and the public generally, the greater and the more enduring will its importance become.

Chain Banking Report

THE report on chain banking presented at the Convention by R. S. Hecht, chairman of the Economic Policy Commission of the American Bankers' Association, will be issued in book form. It presents a complete survey of group, chain and multiple unit banking developments to date, including statistics showing the extent of these movements in respect to the number of groups formed and in operation, the number of banks included in them and their resources. It also gives in detail the methods employed in creating chain systems, their administrative relationships to the central controlling unit and financial structure.

Other phases treated are the relationships between present branch banking laws and restrictions and chain bank developments, recent legislative enactments bearing on chain banking, and the opinions of state bank supervisory officers in regard to the movement. These discussions are followed by a detailed state by state analysis of chain banking developments showing the number of systems and banks in each state, the resources in each instance and the conditions under which they are organized and operating in each jurisdiction.

This report can be obtained at a cost of 50 cents through Gurden Edwards, Secretary of the Economic Policy Commission, American Bankers' Association, 110 East 42 Street, New York City.

How Mergers Affect Trust Departments

(*Continued from page* 324)

and Trust Company at the time were consolidating under the charter of the Merchants National Bank and adopting as the title of the consolidated bank, "Worcester County National Bank of Worcester."

In the first of these two cases the question at issue was the legal status of the existing probate fiduciary offices as executor and trustee to which the Merchants National had been appointed by the Massachusetts Probate Court prior to the consolidation. The Massachusetts Supreme Court in this case handed down an opinion that these appointments were of continuing validity and without need of re-appointment, basing its decision on the fact that the consolidated bank, namely, the Worcester County National Bank, was operating under the charter of the Merchants National Bank, under which charter the probate appointment had been originally made and that there was, therefore, no change in identity, such as would require re-appointment.

In the second of the Worcester County National Bank cases, for the first time was raised a distinctly new question and one of far reaching importance.

In this latter case, the same question was at issue as in the second of the Commonwealth-Atlantic National Bank cases: namely, whether by the consolidation of a Massachusetts Trust Company with a national bank under the charter of the latter, all existing Massachusetts probate appointments were terminated. But a second question was also raised in this case which was far different and far more important.

Sustained by the Supreme Court

SINCE the decisions upon the Commonwealth-Atlantic National Bank petition, Congress had passed the so-called McFadden Act, becoming operative February 25, 1927. By the McFadden Act it was in effect provided, as you all undoubtedly know, that where a state bank or trust company consolidates with a national bank, such consolidated bank succeeds without further action to all the rights, franchises and interests of the state bank in and to every species of property, real, personal, and mixed, and choses in action thereto belonging, without any further deed or transfer; and that the consolidated bank shall hold and enjoy all this property, franchises and interests including the right of succession as trustee, executor, or in any other fiduciary capacity, in the same manner and to the same extent as it was held and enjoyed by the state bank.

The full bench of the Massachusetts Supreme Court, before which this second case of the Worcester County National Bank also came for argument, handed down an opinion (reaffirming its decision in the prior cases) that such consolidations terminated the existence

of the state bank under Massachusetts Statutes of 1922, C 292, that no new appointment to the offices of trustee, executor, etc., thus vacated could be made except by the Massachusetts Probate Court, and further declared that the McFadden Act was unconstitutional in that it attempted to take from the states their inherent right to control and administer the property and estate of deceased and incompetent citizens and residents.

This decision of the Massachusetts Supreme Court was later sustained by the United States Supreme Court as to the first two points, but that court held that the McFadden Act did not mean what the Massachusetts Court interpreted it as meaning, since it expressly provided that the consolidated bank should receive and hold the trust assets to be administered strictly in accordance with the state laws, including reappointment by the probate court, if such was the requirement of the state law. This decision of the United States Supreme Court, is, I believe, not yet reported in volumes, but the Massachusetts Supreme Court decision entitled "Matter of Worcester County National Bank, Petitioner" can be found in the 1928 Advance Sheets 1213 or in 162 N E 217.

State Statutes Vary

WHERE do these court decisions leave us? It would seem as though the following facts confront consolidating banks with compelling force as regards their trust departments:

That the terms and provisions governing the administration of the estates of deceased persons and of mental and physical incompetents are within the sole jurisdiction and control of the state of residence and the state courts of jurisdiction, and that Congress has no power to amend or otherwise change or limit this control, and has not attempted to do so.

That, in the absence of state enactment to the contrary, a corporation ceases to exist as an entity from the moment that its charter is legally cancelled and becomes void, at least as far as holding probate appointment goes.

That all rights and privileges given in consolidation to national banks by the McFadden Act, including every right to succession as a fiduciary, must be held and enjoyed strictly in accordance with the requirements of the State law having jurisdiction and with observance of every restriction and requirement thereof.

That an appointment by will or by the Court in probate matters ceases to be of effect when the appointee dies or when a bank's charter, on which its corporate existence is based, is surrendered or cancelled.

Is the status uniform throughout the different states of the Union? I do not think so. The state statutes vary. For instance, I presume there are few, if any states that have enacted a statute similar to the one Massachusetts has made a part of its statute law and which I have made mention of, whereby the charter of a consolidating state bank automatically and immediately ceases to exist.

I do not pretend to have examined the statutes of the different states. California, I am told, permits, in consolidations, the succession of such fiduciary appointments without reappointment; so also, does North Carolina, I believe; but whether by judicial interpretation of existing statute or by a distinctly enabling act, I do not know.

In certain states where such consolidations would, in the opinion of legal counsel, terminate probate appointments, consolidations are being effected by the creation of a holding corporation or trust and by the continuing in full force of the charter rights of the consolidating banks.

Summed up, the weight of judicial opinion seems to indicate that as to the fiduciary service of banks, whether national or state, the bank, in all probate matters, is an appointee of the state court of jurisdiction; that while it has contractual relations (and the consequent duties and responsibilities) with all beneficial interests, it is always a representative of the court from which its appointment issues or is confirmed and is amenable to such court for omissions and breach of duty; that these duties and this fiduciary appointment it may not delegate, or, by sale or consolidation, transfer, except under enabling state statute.

It seems safe to assume that banking associations, whether Federal or state, retain in consolidation, by the language of the McFadden Act, (as interpreted by the decision of the United States Supreme Court) the right to hold and administer under the charter of the consolidated bank, all fiduciary assets at the time of such consolidation in the hands of any of the merging banks, subject only to the duty of observing all local state regulations as to reappointment, administration and terms of control.

Intelligent Investment Policies

(Continued from page 326)

a market dependable both as to availability and as to stable quotation.

"Scatter Your Risks"

A REPORT of the classification of investments of this character by national banks in 1928 gives the following interesting information:

	Percentage of Total Assets	
State, County or Municipal Bonds	3.0	
Railroad Bonds	2.3	
Other Public Service Bonds......	2.6	
All other (mostly industrials)....	3.7	
Miscellaneous	0.8	
Foreign Government Bonds......	1.0	
Other Foreign Bonds............	0.9	
Stock, Federal Reserve Bank.....	0.3	
Stock, all other................	0.4	
		15.0
Governments		10.0
Total		25.0

The 1928 figures provide the highest percentage of investments of this character on record and developed an increase from 15 per cent in 1900 to 25 per cent in 1928. With the falling off of demand for commercial loans, with the necessity to keep the bank's funds on an income basis, we probably will observe an increasing inclination on the part of national banks to invest in bonds and/or collateral loans, neither of which provide any Federal reserve elasticity. This statement is not intended to influence national banks against the investment of such funds as are available in short and

long time bonds with proper underlying values and a safe measure of convertibility before maturity. It is a very natural channel through which bankers may put such funds to work, but the purchase of bonds with depositors' funds is not a light occupation. It requires that the banker shall proceed by plan rather than by impulse. I have reviewed bond lists of banks where the failure to think through has resulted in an investment of reserve funds in non-liquid securities with a limited and unstable market.

This subject is never discussed without reference to distribution of risk and diversification of investment. Distribution as to maturities is obviously essential and is a part of any intelligent planning. Diversity as to character or form of investment securities should be kept in mind in distributing the hazard. Distribution as to character of industry that supports the debt and geographical location are wise safeguards against the old theory of eggs in one basket. Certainly it is wise to scatter your risks, and undoubtedly it would be unwise to fail to support your investment in as many ways as possible in order to guard against hazards known and unknown. Distribution and diversification, however, may be and sometimes are carried to the extreme where so many small blocks of various characters are covered as to defeat wise purchases or good sales. Such a policy may require continuous checking on an unnecessarily wide variety of risks, and mere scattering is no substitute for selective judgment.

It Helps a Man

RATIOS are a subject of much study and research on the part of a banker who wishes a well balanced position. I refer to the proportion of a bank's total resources which should find their way into the several classifications of assets and particularly to that percentage of the whole which would seem to represent a normal investment account, as well as the ratio of distribution of that account in the varied character of investments that are available. One may take the reports of all national banks or the experience of banks, large and small, and by averages arrive at reasonable proportions as a guide in controlling the approximate total of cash and cash resources, secondary reserve, loans, etc. It is obvious that however careful and comprehensive may be the research, it is as impractical to provide a ratio program that will fit all banks and localities as it is to provide an investment program that will obviate the necessity to think through.

The setting up of approximate ratios as a guide has been found to be very wholesome and the fitting of the experience of the individual banks to such ratios, or the observance of the variance with such ratios, has proved to be quite instructive and worthwhile. It helps a man to know his own bank and watch its trend more intelligently.

In summing up I should say that in determining an investment policy of a

bank no approach to any rule of thumb method is a satisfactory substitute for individual thinking through of the local problem and its general aspects, and that the neglect to proceed by intelligent plan may lead to the following of plausible impulse. It would seem to follow, therefore, that a banker should know the basic considerations that determine the adaptability, liquidity and safety of an investment as he must know the essentials of good loans. It may not be going too far to say that he should be able to test securities as he tests financial statements and collateral, and understand marketability of investments as he understands marketability of products.

A Way Out for National Banks

(*Continued from page* 329)

to place a limit on the maximum tax which could be assessed in those states having a direct property ad valorem tax, it would be a Godsend to state and national banks alike. The power to tax is the power to destroy and while no banker would be in favor of paying less than his just burden of taxes, nevertheless something might be done to guarantee in all cases a fair rate to national banks.

Common to All Mergers

IT has been suggested, and there is real merit in this, that the Federal Reserve Act could be amended so that member banks may be permitted to participate in the net earnings, beyond the amount required to pay 6 per cent dividend on members' stock. This privilege, however, should not be coupled with the surrender of the right of national banks to issue circulation for this is an advantage, though possibly a slight one, over operating under state charter.

The powers of national banks could be liberalized more on a parity with those granted under a trust company charter, but none of us would care to see this liberality extend to the permitting of any act that would be contrary to the laws of safety and sound banking policies.

It has been suggested that in segregated departments interest-bearing deposits be subject to withdrawal at the convenience of the bank rather than at the convenience of the depositor, and that such deposits could be invested in mortgage and other slow loans.

Another suggestion that arises in an influential source is that inasmuch as Congress can and does regulate interstate commerce and trade it might have authority to limit interstate banking transactions to national banks.

In all these suggested remedies, however, there is nothing that would overcome the handicap of the Supreme Court decision in the Worcester County National Bank case, and this handicap is ever present and is the one considera-

tion that was common to all the recent large mergers wherein national banks surrendered their charters.

The Relief Needed

UNLESS Congress can strengthen the Federal Reserve Act and can strengthen the McFadden Bill as passed so that there will be no question as to the right of national banks to succeed to the trust business of trust companies in case of merger under the national bank charter, then you have before you a real handicap for banks operating under Federal charter. If such an amendment would be unconstitutional, a measure of relief could be granted by amending the national bank act permitting a national banking association to own, as a legal asset, in toto all the stock of a trust company operating under state charter. The trust business of the national bank and trust company could be handled under the corporate name of the trust company, owned by the national bank, and though there would be some conflict of authority in case of bank examinations and some added expense and duplication of effort in operating two institutions under one management, yet this would operate as a positive antidote to the Worcester County National Bank decision.

Though I have endeavored to show that there exists conditions which are a real menace to the national banking system, nevertheless I want it understood that this is not a reflection in any way on the system nor on the strength and solidity of its component parts, but is merely a banking problem which confronts us. Newspaper statements of the waning of the national banking system might mislead the public into the belief that there was an inherent weakness in the system or in the individual banks comprising it, but this is not at all true, for whether or not the bank continues under its national charter or merges under a trust company charter, there is no doubt but that under whatever title the institution is as strong as under its former name.

Let us be assured, therefore, that our house is in order and through active cooperation with the banks of our county and district and through better banking practices and management, we can withstand the onslaughts of the group banks and can preserve a unit front to maintain the individuality and prestige which national banks now enjoy throughout the country.

On Trust Work

A booklet describing a systematic plan for checking the progress and quality of trust work has been prepared by the Trust Company Division of the American Bankers Association. A scheme of organization best calculated to assist in the operation of the plan is included in the booklet as is a complete set of forms for carrying out the plan.

Bank Management

(*Continued from page 313*)

ment of savings accounts, just as they are now intensively involved in the study of the management of checking accounts. Scientific methods of approach will be employed, and sound policies and methods developed therefrom. These methods will probably take the following form:

The financial program for the conversion of time deposits will be separate and different from the one employed for the conversion of demand deposits.

Assets into which time deposits are converted will be separated "on the books" by control accounts, and even physically separated from the other assets.

The characteristics of saving accounts of various kinds will be studied to determine the effect on operating expenses and profits.

Interest will be paid on a "sliding" scale basis, dependent upon the size of the accounts.

A "service charge" on withdrawals will be applied on small savings accounts.

It is evident that development of savings account management along the above lines would place such management on a far more sound basis than is the prevailing general practice. Since savings deposits represent a very appreciable percentage of total deposits in many banks, the development of sounder practices has great possibilities.

IN conclusion, it is enough to say that a policy must be sound, must be understood, must be applied.

The determination of sound policies is a problem of research and analysis; the problem of making these policies understood is one of education.

Since the American Bankers Association is the "key" organization interested in the welfare of banking in a nation-wide manner, the Association could do nothing more constructive than to establish facilities for the development of sound policies and their dissemination to all banks. It is true that a considerable expenditure would be necessary to create and maintain such facilities. However, bankers, as a class, have been among the greatest supporters of educational and research movements in other more general fields, and I believe the time has arrived when they should think seriously in applying that old adage "charity should begin at home."

To insure that sound policies be applied—this is the most difficult problem of all. Even on such an elementary change as the application of service charges, but relatively little progress has been made. Many bankers must admit that the only real reason for their non-adaption is a lack of courage. In order to create an impetus toward the application of sound policies, those who come periodically in direct contact with banks should make this one of their major activities. By these I mean the representatives of the regulating bodies—national and state bank examiners. I believe that the personnel of these organizations should be intensively trained in sound policies, applicable to all functions of banking, so they can perform a most constructive piece of work in encouraging the bankers to apply them.

National Banks Need Branches

(Continued from page 306)

District. This may not be feasible to the same extent in all Federal Reserve Districts. Restricting it to state boundaries, which are political, rather than economic, presents difficulties, as does the suggestion that a radius of 50 or 100 miles from the parent bank be fixed, but there is an economic area to which the extension of branch banking can be applied, varying in size to meet the diversified conditions that exist in this vast country.

It is for Congress ultimately to fix the boundaries of these districts; but Congress, of course, would not and could not attempt to do so prior to careful consideration and study of all of the factors, which could only be carried on by a committee of qualified experts. Would we not be making real progress if, at the coming session, the Congress were to instruct, let us say, the Secretary of the Treasury, the Governor of the Federal Reserve Board and the Comptroller of the Currency to study the banking situation and to report the boundaries which they would recommend that the Congress set up, establishing such definite areas?

Management a Question

IN order that this development, within whatever economic areas may be determined upon by Congress, may be sound and orderly, it should be protected by three safe-guards: First, that governmental supervision be further extended and intensified; second, that each parent bank be capitalized adequately to meet the responsibility of operating branches, and third, that discretion over the establishment and over the removal of every branch be vested in the Comptroller of the Currency.

Under a branch system of this character it would be possible for the parent bank to have a diversified banking business to protect it against economic depression in any one locality or in any one industrial activity or business enterprise. It would then be able to extend to the country districts the same quality of banking services and the same safety to its depositors which the customers of metropolitan banks in the large cities now enjoy. There would, of course, still remain the question of incompetent management and in a branch system the question of management is of the greatest importance on account of the magnitude of the enterprise. It is to this end that it seems wise that governmental supervision be developed to the point where the supervising authorities can protect the public as far as is humanly possible in this respect.

No weakly capitalized bank should be permitted to engage in branch banking and in the ordinary course of business it is not likely that such a thing would be proposed. Nevertheless, I am in favor of a statutory requirement for a minimum capitalization which will be large enough to insure the protection of the depositors and to discharge properly the responsibilities incident to the operation of a branch system.

Nothing to Fear

ONE of the principal reasons why the scramble for branches under the McFadden Act, prophesied by many of the opponents of the measure, failed to materialize, was undoubtedly the incorporation in that Act of the wise provision that no branch could be established without the approval of the Comptroller of the Currency. It was required that an application be filed by the bank setting forth the reasons why the branch was desired, such application to be supported by a formal resolution from its board of directors in authorization thereof. Further procedure involved the detailing of a bank examiner to make a thorough investigation, having in mind the effect of the establishment of the branch upon the local community, upon the banking situation as a whole and upon the parent bank, and the filing with the Comptroller of the Currency of a full, written report of this investigation, along with recommendations from the Chief National Bank Examiner. Upon the basis of this information and such other information as the Comptroller might acquire from the Federal reserve bank or from other sources rests the appproval or denial of each application for the establishment of a branch. This procedure has been sufficient to discourage any precipitate rush, and this discretionary power lodged with the Comptroller of the Currency will enable

him at all times to require a branch system to develop in an orderly manner.

What of the sound country bank which has been operating for years with profit and is serving its local community? Under the procedure outlined above such a bank could not be driven out of business through the establishment of a *de novo* branch, for the simple reason that no Comptroller of the Currency would permit it. Bank stock is a commodity with a market value and if a stockholder wishes to sell to a branch system that is his right under the ordinary law of contract. But it is inconceivable that any Comptroller of the Currency, the proceedings of whose office are important public records, would ever lend his high responsibility to aid a branch bank unfairly to drive a local bank out of business. The successful country bank, therefore, should have nothing to fear from the recommendation which I propose.

A Logical Development

IN my recent address at Atlantic City, I indicated that the proposal for new legislation which I intended to formulate would offer to state banks and trust companies an opportunity to gain a wider field of banking operations under the national charter. With liberal branch banking privileges conferred upon the national banks, the attractions of a national charter would be considerably enhanced and while there would of course be no compulsion upon the state banks and trust companies to become national banks, in the usual course of business, it is believed that the stockholders of the large state institutions would find it to their advantage to operate under the national charter.

From the standpoint of the public, since commerce is national and interstate, the creation of a uniform banking system through the assimilation of the bulk of the banking resources of the country would be not only an advantage but a logical development. From the standpoint of the Government of the United States, the increase in the resources and strength of the national system as a result of the extension of branches and the conversion of large state banks into national, would bring into the Federal Reserve System a great volume of banking resources now operating independently and at the same time develop an instrumentality over which the government would have complete control and through which it could enforce an adequate banking policy.

An Evaluation of American Banking

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tions, and sometimes in their open market operations. They take care of the marginal supply or excess of credit, frequently in their bank acceptance operations, government security buying and other open market trading. Thus they help to preserve a balance in the credit structure and furnish a factor of safety and levelling which was not present before the inauguration of the system. In the face of the tight money situation which prevails at the present time and to which we have referred, the Federal Reserve System is today in a very strong reserve position. There is found in this condition a very real source of confidence in our ability to withstand successfully any extraordinary credit strain. There are some who have asserted the policies of the Federal Reserve Board have been weak and uncertain. However this may be, it should be pointed out that the individual Federal reserve banks have placed themselves in a position of preparedness.

For Our Use in Emergencies

SO far as our own relations as bankers with the Federal reserve banks are concerned, I think we may lay down some fundamental principles. The Federal Reserve System is for our use in emergencies, to carry us over peak periods, to influence the general credit situation through its open market operations, and to be the custodian of the country's gold supply, upon which all credit is based. The Federal Reserve System does not operate for the purpose of adding permanently to the funds which we dispense to our customers, nor to enable us to make an additional profit

through rediscounting at a better rate, nor to make it possible to take care of customers who desire to purchase or hold securities after the loanable funds of our banks have been exhausted by commercial or agricultural loans. The responsibility for seeing to it that the facilities of the Federal reserve banks are not improperly used, rests in the first instance on those of us who are managing member banks of the Federal Reserve System.

The time has been short, the problems multi-form, the pace strenuous. Whether in this brief twelve months your administration has attained its one principal objective—the country-wide development of better bank management—is not of so much concern. If we have been able to remove some obstructions in the path of progress on which the banking profession has for years irresistibly set itself—if we have been able in a degree to accelerate this development—if we have made better bank management a more tangible and feasible reality to only a few of the smallest banks in outlying communities—if we have brought to some members of the banking profession a new vision of their opportunities, a clearer perception of their responsibilities, and an increased devotion to their ideals, then we shall be most gratified.

For the future, I can ask nothing higher nor better than that this great Association may continue to dedicate itself to President Hoover's maxim that the truth will prevail. We need more patience, more faith, in the general purpose of our people and in the wisdom of ultimate economic developments. Our assurance for the future is in the fidelity with which we discharge each day's responsibilities. Then let this great Association continue to dedicate itself unselfishly, not only to the material progress and advancement of the individuals and institutions it represents, but also to the establishment of faith, service and honor as the only accepted and distinguishing characteristics of lasting success and fame, and the only measure of true attainment which American business may recognize.

Group Banking in the Northwest

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less it has more than merely local financial backing, it will never come.

This great Northwest has in abundance the heat and energy resources and the raw materials that industry demands. In addition, it contributes to the national wealth a far greater proportion of crop and livestock products than would be expected from its population.

Its fuel and energy resources include a tenth of all the potential hydroelectric power in the United States. Its coal resources are among the largest in the country. It is asserted it has more natural gas than any other district. Its oil fields, just beginning to be developed, promise much for the future.

Immense are its raw materials for industry. Its manganese and chromite deposits, albeit practically untouched, are the largest in the United States. According to the latest figures available in the Statistical Abstract of the United States (1928 edition), this district produces more iron ore than all the remainder of the country; 18.5 per cent of this nation's output of silver; 17.3 per cent of its gold; 13.4 per cent of its copper; 11.2 per cent of its zinc, and 3.4 per cent of its lead. It has all kinds of nonmetallic minerals — clays for pottery ware, tile and building purposes; mica, gypsum, phosphate, corundum, and a score of others used as compounds in manufacturing. Aside from the fact they exist in commercial quantities, scarcely anything has been done about them.

Agriculturally, this is one of the most important districts in the United States. Based upon the latest figures available in the 1928 Statistical Abstract, with only 4 per cent of the population and 5.8 per cent of the nation's farms, Minnesota, North and South Dakota and Montana produce 10.8 per cent of the value of the twenty-two principal crops in the United States. The average value per farm in this district of the twenty-two principal crops was $2,342 in 1928, compared with the country's average of $1,193. This district produces 23.8 per cent of the nation's butter; 26 per cent of its wheat; 24.7 per cent of its oats,

and 15.4 per cent of its potatoes. It has 12.3 per cent of the country's hogs and 8 per cent of its cattle.

And so, in such a country as this Northwest, if we mean to go forward in this age of mass production and expanding markets, we must have the service of strong banking facilities, whose interests are linked with ours and who know our problems, so that we will be independent of the distant money centers; we must have the assistance of men experienced in the larger financial operations and world-wide market demands to get the best market; we must have the supervision of men with a life training in banking so that we may in a measure avoid in future the ruin brought upon our depositors, directors and stockholders by the collapse of 30 per cent of the banks in the Ninth District from 1922 forward, in large measure through the mistakes of amateur bankers.

I recently observed the anomalous situation of a country banker condemning the group plans now forming in the Northwest, and at the same time proposing to his neighbors that they form a group with control among the local men excluding all large city banks. He is apparently willing to accept all the evils and reject much of the good in order to retain the position of a "big fish in a little puddle."

From my viewpoint, the virtues of the group plan far outweigh its faults. I believe the unit bank will not only continue to live beside the group bank, but actually prosper on the increased development which the group bank will bring to the community, and the example of efficiency and community welfare, which the group bank will exhibit.

Banking Evolution

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more in serving its particular community than a bank owned by distant interests. All the knowledge and confidence derived from local contacts cannot be translated into terms understandable by some controlling authority at a remote point. I propose a resolute endeavor to make the largest possible and most effective use of correspondent bank relations and in making such an endeavor we can rest our confidence in an expectation of success on the sturdiest of foundations.

In banking nothing can take the place of the man on the ground who knows local conditions and the men with whom he is dealing and has the power to make his own decisions under a responsibility owed only to resident ownership control. Also, and I would like to stress this, we American people have a deep-seated distrust of concentrated power, especially concentrated financial power, money power.

This distrust has often been latent for long periods; but however dormant, it has been there. It was that which made it possible to destroy the first and second banks of the United States. It was that which less than two decades ago threw the country into the turmoil of the "Money Trust" investigation. Let us not forget that in the statute books of the nation and of the states we have laws against excessive concentration of economic power. They have been invoked in the past and can be invoked again. They can be amplified and be equipped with more iron teeth. Our annals show that the invariable accompaniment of any protracted period of economic depression is a fresh political lurch in the direction of just such legislation and a fresh invocation of its enforcement.

The Last Citadel

JUST now there are no signs of an impending period of economic depression, but it is reasonable to expect that some day it will come. If we as the men charged with the wise administration of our banking system, because we are charged with the wise administration of our own banking institutions, should allow ourselves to be guided into courses alien to American traditions we may reckon upon hearing in such a period of depression the voice of the specious political agitator calling for "more socialized banking."

We as a people have, in the long run, and will always in the long run interpret equality of opportunity not as meaning a chance for everybody to be a hired man but as a chance for every American who has the ambition, will and ability, to become the owner of his own business,

run his own show, be his own boss. I know of nothing in our national economy which seems to me to stand so signally for the preservation of equality of opportunity as our individual banking system. Individualism is being submerged in other economic fields, as it is in politics. Our banking system is the stronghold of individualism. Economically, it may yet be the last citadel.

Preservation of the individualism of American banking rests, in the last analysis, in the individual banker. He can save his individual freedom of independent initiative only by furnishing the most complete and best possible banking service to his community in accordance with sound banking principles and wise banking policies. He can help himself to this end by availing himself of all the possibilities which correspondent banking offers.

The Next Step in National Banking

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stronger banking. When the average person thinks of a stronger bank he has in mind a larger one. He is more greatly impressed by size than management.

At any rate in communities served by branch or group banking organizations, the people have shown no antagonism toward them, and, as a matter of fact, the recent announcements of new group organizations have been received with considerable favor in the communities most directly affected. There is little doubt that the public is ready for larger and more efficiently directed aggregations of banking capital.

It is too early to say whether or not group banking is here to stay. Certain economists and others high in banking and governmental circles have expressed the opinion that the group system is but a makeshift that will yield to branch banking when the restrictions against branches are removed; and, I am inclined to agree with them. While the group system has much to offer its membership, it is largely of an advisory character. So far as management from a central office is concerned it must of legal necessity be one of indirection rather than of direction, which latter method is a fundamental characteristic of systems operating branches. My limited experience as the head of a bank holding corporation inclines me to the belief that the direct, rather than the indirect, is the preferable system of management. Were the restrictions against branches in Oregon removed today, the directors of my corporation would undoubtedly take steps immediately to convert its ownership of banks into a branch banking system.

Governmental Supervision

FIVE years ago when as head of the Oregon Bankers Association I was preparing the president's annual address, one of the deans of banking in the Pacific Northwest urged me to advocate the Federal supervision of all banking, stating that after a long and varied experience as a state banker he was thoroughly convinced that the Federal was superior to any other type of supervision. I answered him with the statement that while I was in full accord with his belief in that connection I was certain that neither the country nor the banking fraternity was ready for such a radical departure in banking and that its recommendation would be harmful rather than helpful.

However, the present trend in American banking is bringing directly to the front the question of adequate governmental supervision. Neither the Federal nor the state banking departments, with their limited supervisory powers, can adequately handle the supervision of a group banking system that disregards political boundaries and the origin of characters when acquiring units; nor can they cope readily with the ramifications of a rapidly expanding system of branch banking, an expansion which is in prospect, and, which to me, seems inevitable. I believe the time will soon be at hand when we must give serious consideration to the Federal supervision of all banking in America.

Canada's Trade

The value of Canada's trade with Latin America for the past fiscal year was $73,000,000, according to the Royal Bank of Canada. This was over thirty-five times its value in 1900.

Today's Laboratory is Tomorrow's Industry

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up with ourselves. In education we call it surveying, in commerce experting to discover hidden losses; in personnel work we call it testing; in agriculture, experimenting; in banking, examining; in insurance, research in statistics, but everywhere and always it is research; bigger and better research. Already does that organization put up the shutters and beckon to the receiver which through parsimony, through blind prejudice, or through just dumb ignorance fails to fall into line and keep step in the procession of forward-marching moods, methods, and marvels of the present day in industrial affairs.

Soon marching will be too slow and we shall take to flying. The problems of increased strength and elasticity of materials with reduced bulk and weight of power having been solved in the rapid evolution of heavier-than-air machines, who knows but that we may yet attain the speed suggested by Charles H. T. Townsend, who proposes flight "around the world in a daylight day" made possible by a study of the Cephenemyia—a fly resembling a bumble bee—whose mechanism may point the way to the realization of this almost inconceivable rate of speed by discovering all the mechanical principles involved.

"Setting out from New York," as he says, "at 4 a. m., we could take coffee over Omaha, breakfast over Reno, tiffin over Pekin, tea over Constantinople, and dinner over Madrid, while arrival in New York City at 9 p. m. would complete the circuit."

Power Is a Dangerous Thing

IN such a world, in such an hour, how is the banking business affected and how should it proceed? It is a far cry from the small family industry of yesterday to a corporation reporting a capitalization for taxation purposes of $2,300,000. So will it be a world's span from the local, friendly, family bank to that financial institution which meets the needs and the opportunities of the tomorrows.

Primarily banks are money making institutions, but they may be—in many cases already are—and in the future must be social institutions as well for the progress of civilization. Power is a dangerous thing and this many banking institutions have in almost unlimited degree. And the range of public service they undertake is amazing—from that of paying the monthly bills on the okeh of the single depositor to the care and education of the children of a deceased testator.

But it is in relation to big business that the newer and more insistent demands will be made. Industry has moved with astonishing rapidity through purchase and consolidation back to candid monopoly. Time was when banks advised big business; now big business commandeers banks. Is this not what President Craig B. Hazlewood meant when he said, "I sometimes wonder if it might not be better to reverse ourselves in this matter of counseling our business customers and let the flow of wisdom run up hill—from them to us." In the last analysis, industry and banking will have to make progress together and "the vast accumulation of knowledge regarding scientific management which is being so successfully applied to industry" will be equally successfully applied to banking, to the end that not only will industry and banking meet greater success, by the elimination of waste, increasing profits for stockholders, and creating surplus to loan or invest, but also, successful themselves in the larger sense, will share their success with all peoples, making for happiness and prosperity throughout the land.

The Advantages of Group Banking

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nection with their examination exist, it would appear that ample authority is provided under present laws to develop any and all information necessary to determine all pertinent facts in connection with their conditions and practices. As a matter of fact, the vast majority of such companies have shown every desire to cooperate with state and national banking departments, and in many quarters the resistance once strongly urged on this score appears to be waning.

The development of bank holding companies may well take about the same form as public utility holding companies, which have accelerated and facilitated the more rapid development of these great agencies of public good. In fact, there is a striking similarity between bank holding companies and public utility holding companies in that both banks and public utility operating companies are under strict laws, designed for the public's protection. The holding company in neither case can abrogate the laws which limit and surround the operations of their subsidiaries.

Few of our state laws impose a double or unlimited liability upon the stock of private corporations, hence it is obvious that a bank holding company, to be worthy of the fullest measure of public and depositor confidence, should make definite provision for the double liability it assumes in the ownership of bank stocks. This it can best do by providing a sufficient cash capital to enable it at all times to have in readily convertible assets, other than bank stocks, an amount at least equal to the par value of the bank stocks, which it owns. By so doing, it would actually provide a greater protection for its banks than is provided by individual ownership of bank stocks, as experience shows that only about 45 per cent of the contingent liability of bank stocks in individual ownership is collectible.

Acceptable to the Public

GROUP banking provides the means for an orderly transition from the present form of unit banking into a new system which will be acceptable to the public, which will be better adapted to the changed conditions of the times, and will cure the deficiencies so well recognized to exist in our present system.

Under a perfect banking system bank failures would be impossible. The reasons for such failures are well known. Bank guaranty systems have been unsuccessful. Other preventive measures have not put an end to bank failures. The small local unit bank inescapably holds some hazard for its stockholders as well as its depositors. Bank failures, due to improper concentration of risk, are not merely probable, they are inevitable as long as the present system of banking prevails. Properly conceived and honestly administered group banking, not in itself a perfect thing, is nevertheless a step in the direction of a remedy for this evil. Out of it will come a new system of banking, which will be in harmony with American standards and ideals. The opposition to group and branch banking which has largely been confined to unit bankers and politicians, is rapidly waning. It is now almost impossible to find a non-political authority who believes it is either feasible or possible to prevent bank concentration.

The State Banks

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process of preparation and when completed will be sent to our membership.

Perhaps never before in the history of our Division have we had such remarkable expressions of appreciation as were elicited by these studies on scientific bank management.

Serving as we do a large number of farmer customers, our Division has been intensely interested in the agricultural situation. We have always realized that bankers and farmers are partners; what vitally affects one affects the other. We have been sympathetic with sound plans of cooperative farm marketing that will assist in working out a greater stabilization of prices for agricultural products in harmony with sound economic principles.

Business Insurance Trusts

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Life insurance companies are equipped to provide definite guaranteed incomes and settlements when there are no special complications or discretionary powers to be used. Companies are however, wholly unprepared to either give advice or make investments for policyholders. They can guarantee a minimum income from a given sum and nothing more, so that in business insurance the insurance companies advise that trust agreements with reliable trust institutions as trustees be entered into in practically every instance.

The organization of a life insurance company calls for a systematic handling of all cases, with as little as possible left to the discretion of the person handling it. A trust company, on the other hand, is organized to give individual attention to each and every business matter with which it has to deal. A short time ago an application was made to us for a policy to guarantee the education of the son of the applicant, and it was requested that there be written into the policy:

"If the son in college should ever fall below the upper one-third in his class, the Company was to pay the income to ——— charitable organization."

Of course, the company declined to make this agreement, and advised the applicant to go to a trust company and have a trust created.

A life insurance trust may be formed by the assignment of policies of insurance from the owner to a trustee, or by naming a trustee the beneficiary in the policy. The assignment method, of course, is the more unfavorable as it may be likened to the naming of an irrevocable beneficiary. When a trust is created by naming the trustees as beneficiary the insured may reserve the full right and control of his policy if the trust instrument is competently prepared. Under this method, there is no real change of interest during the lifetime of the insured, as the agreement which he makes with the trust company merely extends to the proceeds of the policy, the trust agreement directing the trustee how to deal with the fund after the insured's death.

Funded and Unfunded Trusts

IF the insured transfers to the trustee sufficient securities or other property that will enable the trustee to pay all policy premiums out of the income he has formed what is customarily called a funded trust. The insured may also wish the trustee to hold the policies, and he, of course, has a self-sustaining guaranteed estate which will amount to the fund plus the face value of the insurance policies. The trustee in turn will make an annual charge based upon the amount of income distributed to the beneficiary in the funded trust. There are really two separate trusts; one in operation during the lifetime of the insured, providing for the payment of all premiums and the other beginning operation after the insured's death.

If the insured himself continues to pay all premiums out of his own funds the trustee usually does not have the possession of the policies, and if it does it will be merely for the purpose of acting as custodian for safekeeping. The trust simply means that if the policies remain in full force, the proceeds will be payable to the trustee at the death of the insured, and strictly speaking the unfunded trust is not a trust until the death of the insured. This form has proved more popular because of the inability of lots of people to set up a sufficient fund out of which to pay premiums. In fact, all that the insured needs to do is to enter into an agreement whereby the policies will be payable to the trustee, who in turn will distribute the proceeds upon his death.

An Intricate Question

THE inheritance tax laws have in general the same effect on insurance trusts as they do upon life insurance not placed in trust.

It is always desirable in partnerships to have an agreement as to the manner in which the partnership is to be wound up in the event of the death or disability of one of the partners. It is much more desirable that insurance be had on the lives of each of the partners to provide

for the purchase of the interest of the deceased partner. This is an intricate legal and business question, and any partnership entering into it should have the advice and guidance of a competent trust officer. We find the usual idea among business men is to have enough insurance to pay for the interest of the deceased partner of the firm. The first question that arises then is how is the valuation of that interest to be determined. Our idea is that this should be definitely and absolutely fixed, either on an income or appraisal basis, and that the trust company should be entrusted with the entire supervision of that final transaction.

We advise, however, in addition to the paying for the partner's interest, enough insurance should be carried upon the lives of the partners to create a surplus fund, to more or less take the place of the deceased partner—a reserve fund.

My observation has been that the cause of a great number of business failures and failure among farmers and laboring people is their neglect to build up a reserve or contingency fund against "rainy days" and bad years.

Corporation Insurance

CORPORATIONS, except where they are close corporations practically equally owned, usually take insurance payable directly to the corporation upon the death of one of the principal officers or managers. Where there are no complications and no close holding of the stock a trust agreement is not absolutely essential, but in all corporation insurance where it is taken for any purpose except the building up of a fund to represent the deceased, the services of a trust company are absolutely necessary. Where stock is to be paid for, it can only be handled through a trust company.

Every business organization is building up a safe and sound reserve when it carries business insurance, and my own idea is that this character of insurance should always be so tied up with a trustee that it is in fact a reserve against hard times as well as against death.

The underlying reason for life insurance on the officers of a corporation is not always the same in the case of large corporations with a large list of stockholders. Insurance means the stabilization of the valuation of the stock, and the guaranteeing of the business. In a close or small corporation it may represent the interest of only one stockholder, and often becomes the sole guarantee of the institution.

Carried Safely Through

IT has often been said that no man dies but that there is another to take his place. I would add to this, no man dies active in business without an interim before another can take his place. Life insurance should be the stabilizing feature during that interim that will carry the business safely through to the new captain.

For more than forty years life insurance companies have been paying legitimate claims without any exception, and smaller corporations can well afford to take endowment insurance with surplus as well as protective features. Most corporations can well afford to take life insurance on its officers as additional security for the payment of any outstanding obligations, such as bonds or preferred stock and create a trust where the trust company can either pay these obligations or invest the funds and pay them as they mature.

There is no greater realm for investment today in the insurance and trust business than that afforded by corporations where they are indefinite as to time of payment. Replacement value is the basis of all insurance—life, fire and casualty, but money alone cannot replace brains and personality. The nearest approach to the replacement of human value is a life insurance trust executed by a capable and efficient trust company.

Convention Calendar

Date	State Associations	Place
Nov. 6-7	Nebraska	Omaha
Nov. 8-9	Arizona	Phoenix
Date	Other Associations	Place
Oct. 29-31	Mortgage Bankers Assn. of America.	New Orleans
Oct. 30-Nov. 2	Financial Advertisers' Assn.	Atlanta, Ga.
Nov. 7-8	Fifth Mid-Continent Trust Conference, A. B. A.	Detroit, Mich.

Protecting the Trustee

(*Continued from page* 337)

of practice in personal trust agreements is not to the ultimate advantage of the trust company, for while its immediate effect may be to protect the trust company for some particular default or omission, its ultimate result is to drive away trust business.

The argument advanced for the inclusion of provisions limiting liability, is that the responsibility of the trustee, without such a limitation, is greater than is justified by the compensation received by it; that the sum paid the trustee for its service is too small to justify the assumption of the customary liability. Therefore, say the advocates of such provisions, by inserting the limitation of liability, the trustee assumes a lesser liability and is thus enabled to act for a smaller fee and the smaller fee will in turn induce increased business.

This is a fallacious argument. Trust business is attracted primarily by the conviction on the part of the trustor that the trustee is properly qualified by experience and knowledge to safely administer the trust fund, and will be financially responsible for any default. The question of compensation is secondary, for it is but poor consolation to a trustor who may have lost without redress the corpus of the trust through the inexperience of a trustee (not amounting to gross negligence or wilful default) to know that he has had to pay but slight compensation for the services of the trustee.

The proper performance of trust duties by a corporate trustee not only entitles it to adequate compensation, but it is impossible to give adequate trust service for compensation that is not adequate. There is no way that you can skimp on the performance of a trust duty and still properly perform that duty. If I desire the services of a trustee and wish to be sure that the duties are to be properly performed, the first thing I do is to provide adequate compensation. It is suggested that trustees will be better protected in the long run by absolutely insisting on adequate compensation for everything they undertake, than by attempting to limit their responsibility and duties in order that they may act for a lesser compensation.

It is well that there is little, if any, competition between trust companies on the score of rates of compensation. That is proper. The only competition should be on facilities and service. But the absence of competition on questions of compensation is not sufficient.

The rates of compensation should be sufficiently high to permit the trustee to use the highest care and skill in the administration of the trust. That care and skill can only be obtained by the payment to the personnel of compensation which is substantial enough to attract men of the highest ability and attainments, and to hold them. If there is one thing more than any other that will insure the protection of the trustee and the future of the trust movement, it is the maintenance of a personnel of the highest character. This in turn requires adequate compensation to the trustee. Trust business that cannot afford to pay the trustee to use the highest skill and care, is not worth having.

Instilling Confidence

IT was held at one time in England that a corporation could not be seized to a use, or in other words, act as trustee, because as was gravely observed, a corporation had no soul, and therefore how could confidence be reposed in it. But the technical rules upon which this doctrine proceeded have long since ceased to operate, and today the corporate trustee is recognized as not only legally qualified to act but as possessing many advantages not possessed by the individual trustee.

But there was something of substance behind the old observation respecting the capacity of a corporation to take and execute a trust. The capacity to properly execute a trust requires more than skill, and knowledge and financial responsibility. It requires sympathy and

conscience and above everything else an eye directed solely and completely to the service of the beneficiary. Confidence must be reposed in a trustee. Can such confidence be given to a mere creature of statute; a corporation that exists only as a creation of law? The answer that it can depends upon the quality of the personnel that has been intrusted with the management of the affairs of the corporate trustee. The character, the judgment and the conscience of the trustee can be no greater than the aggregate of the character, the judgment and the conscience of those who act for the trustee. They make up the trustee. It is they who after all are intrusted with this great power and responsibility of administering the funds that protect the dependents of a nation.

I have often thought of the high privilege granted those who administer trusts, of the satisfaction it must be to them to know that in them is reposed the duty and privilege of acting in behalf of those who are gone. It is a high privilege, and it is a great responsibility. Those who bear that responsibility merit the aid that flows from a sympathetic understanding of their duties and problems by the officers and directors and stockholders of trust companies, and by the public generally. They merit that independence of action and authority without which a proper performance of their duties is impossible, and they merit that material compensation that is justly due to those who perform difficult and arduous tasks.

The corporate trustee can best be protected by a general understanding of the duties and responsibilities of the trustee, and the selection of agents who are properly qualified by experience, judgment and character for the performance of those high duties and responsibilities.

Savings Banking Has Grown Up

(Continued from page 339)

progress, since those principles tended at times to continue properly in weaker hands. No such conditions obtain in America. Communism has been unable to secure a foothold in this country because of the absence of class consciousness. This same absence of class consciousness promotes savings. Education and integrity are regarded as the great agencies which enlarge and extend the personality and influence of the possessor. Here then is the foundation for savings—the inspiration and the opportunity.

Into the development of savings from this basis it is not necessary for me to go. Everyone can read the story as it is written in countryside, village and city, as it is realized in deposits in banks, in real estate, in investments, in attendance at higher schools, in the possession through ownership of what before the world war would have been regarded as luxuries. Savings totals can now be regarded as a sort of yardstick—a measure of overplus. It is the part remaining after the necessities and in many cases the desires are satisfied. Indeed since employment has been good and the promise for the future is good for several years, the tendency naturally has been to narrow the margin between the amount earned and the amount spent.

In this education of the ordinary man, for he it is who piles up the savings deposit, the Savings Bank Division rejoices. In it we have had a large part, through the distribution of literature, through bank advertisements and through convention meetings and conferences, through addresses in schools, and back of it all in urging legislation which makes for private initiative in business and safety and ease in banking.

Some time ago the Savings Bank Division had a protest from Hawaii because that group of islands was not represented in our annual total. Heeding their request, their mite, and it is a sizable mite as Pacific islands go, is included this year. During the year closing June 30, 1929, the number of savings depositors increased from 126,000 to 152,000, and the amount of savings deposits increased from $31,250,000 to almost $44,000,000. A year ago the Japanese residents there had almost 20 per cent of the total savings deposits,

the Chinese over 16 per cent, the native Hawaiian 7.5 per cent, the Portuguese over 11 per cent, the Philippinos almost 7 per cent, and all others 38.6 per cent. This year the savings per inhabitant approximates $126. Thus, the gospel of savings spreads. Inquiries as to the establishing of savings banks reach the Savings Bank Division from Cuba and Porto Rico.

Will Continue Popular

WHAT then of the future? In the flush times of the World War it was said people had forgotten how to utilize savings in a wild burst of extravagance, but savings increased. More recently everyone was disturbed over installment selling or the extension of credit to the ultimate buyer. Conservative bankers may well keep in mind the adage carved in stone above the fireplace in a wayside inn. It reads thus:

"I am an old man and have seen lots of trouble in my time, but most of it never happened."

Financial plans will change with the years, but savings in some form will remain and continue popular. No danger is there that the plan under which the middle classes, which constitute the bulk of the population, have achieved a competence will fall into disuse.

Leasehold Loans for Savings Banks

(Continued from page 342)

The chief criterion as to the safety of a leasehold loan lies in the number of times the expenses of the property and its ground rent—that is, all charges prior to the interest on the leasehold loan—are earned. Let us say the gross revenue on a building is $14,000 a year. Operating expenses, heat, light, power, taxes, etc., take up $4,000 a year. Let us assume that the ground rental is $2,000 a year. We then have a net income of the leasehold estate of $8,000 a year. This would seem to offer a considerable security for a loan. Under the schedule recommended hereinafter, I believe such a leasehold, satisfactorily meeting other requirements, would be good security for a loan of $56,000.

Were the ground rental $5,000 a year instead of $2,000, there would be in my illustration a net income of only $5,000, so that the ground rental would be earned but twice, after allowing for expenses of operation. In that event, I believe the loan should be limited to $15,000, or three times the net income.

No Trick Clauses

I HAVE drawn up an abstract of the points I consider essential in judging the safety of a loan on a leasehold interest in real estate:

The lease should contain no trick clauses. There should be in the lease a provision preventing the feeholder from cancelling the lease for any default on the part of the lessee in any of its provisions, without first giving notice to the leasehold mortgagees. This is essential. If it is not in the lease, then any person expecting to lend on the leasehold should get such an agreement from the feeholder and all parties holding an interest in the feehold. Otherwise a person lending on a lease may find that lease simply cancelled underneath him, and so lose the entire security.

In my opinion no loan should be made upon a leasehold interest in real estate for a period in excess of ten years, nor in any case where the lease is to expire in less than twenty years. I believe the lease should have run at least two years before the loan is made. It must be remembered that leasehold estates are disappearing equities, and on the date that the leases expire they are worth exactly nothing. We should not then find ourselves with a loan of considerable amount on a leasehold which is about to expire.

The Only Safe Method

THE reason for not lending on leases which have run less than two years lies in the desirability of obtaining figures, based on actual experience, of the income and expenses obtaining under the lease. If loans are made on properties subject to newly negotiated leases, income and expenditures will have to be estimated. This means that considerable latitude is given to the imagina-

tion of promoters of the project; and we are all aware of the disastrous results which have accompanied estimated income and expenses in the real estate mortgage bond field. There can always be found eminent gentlemen who will accommodate their estimates to the desires of the promoters.

I believe that no loan should be made on a leasehold estate unless the loan is amortized through substantially equal semi-annual, quarterly or monthly payments, which, if continued at the same rate, would extinguish the debt at least ten years prior to the expiration of the lease. This provision is necessary in order to maintain the margin of safety, for we must decrease our debt as the value of the lease disappears.

In calculating the number of times the ground rental is earned by a lease, we meet the difficulty that in many leases the ground rental to be paid is not constant, but varies—generally increasing in amount as the lease grows older. The only safe method of calculating the net income on a lease is to apply the highest ground rental to be paid during the life of the loan. I think that is obvious. But in some leases the ground rent might step up very rapidly just after the maturity of the loan. It might increase in such an amount as to make the refunding of the loan impossible. Therefore, I believe that in the calculation of the net income of the leasehold estate, the prospective lender should consider as an expense not only the highest ground rent to be paid during the life of the loan, but for a period of say three or five years after the expiration of the loan. If he does that, he will not get caught with a loan on a lease subject to a prospective increase in the ground rental.

Restrictions Recommended

I BELIEVE no loan should be made upon a lease at all unless the net income of the leasehold estate is greater than the ground rental; that is, after paying all expenses, the ground rent should have been earned at least twice over. If the ground rent has been earned twice over, I think the savings bank should be able to lend not in excess of three times the net annual income. If the net income is more than twice the maximum ground rent, I believe the savings bank can safely lend five years' net income. If the net income is more than four times the ground rent I believe the savings bank can safely lend seven times the net income, and in the event the net income is greater than eight times the ground rent, I believe the savings bank can lend nine years' net income. In the last case, the safety practically approaches that of a loan on a feehold interest.

The complexities of leasehold lending are somewhat discouraging; nevertheless it may be that savings bankers must face them. They have seen the transition of their bond business from simple, non-callable, closed first mortgage trust indentures to the complex open mortgage, with callable and possible convertible features of the present day. It may be that they are to witness a similar growing complexity in their loans on real estate.

On the making of leasehold loans the following restrictions are recommended:

No loan to be made upon a leasehold which has run less than two years, or which at the time of making the loan has less than twenty years to run.

No loan to be made for a period in excess of ten years.

The income of a leasehold estate is to be determined by deducting from the lowest income actually received during the two-year period prior to the loan, the maximum ground rental to be paid under the lease during the life of the loan, and including a period ending three years after the maturity of the loan. This minimum net income is to be considered the annual income of the leasehold estate.

No loan is to be made unless the net income, after paying ground rent, is equal to the ground rent to be paid. In that event, not more than three years' annual net income is to be loaned. As the net income of the lease increases, so the number of times the net income which can be loaned increases. If the net income is in excess of eight times the maximum ground rent, the savings bank may lend up to nine times the annual net income.

The Great Web of Chain Banking

(*Continued from page* 308)

A few years ago, while still Secretary of Commerce, President Hoover in an address before the United States Chamber of Commerce, remarked that we were, almost unnoticed, going through a revolution of our economic life, and that we were passing from a period of extremely individualistic action into an era of "associational" activities.

A Ceaseless Trend

THE facts contained in this report indicate that this trend toward associational activities goes ceaselessly and relentlessly on and, whether we take the view that it is a natural step in the evolution of American business methods or merely a passing fad or fancy of the financial world, it behooves us to watch and carefully study the daily developments of this modern trend in our business.

I am not reporting on this subject either as an advocate or as an opponent of this new method of concentrating banking resources through the affiliation of banks into groups and chains, but I am certain that our report which will be printed and ready for distribution, is the first complete national picture of this rapidly growing movement. The printed report will give in detail the situation in each state, showing the number of chains or groups in operation, their present size and scope, etc.

It only remains for me to express publicly our Commission's appreciation of the cordial assistance given us by the bank commissioners of the various states and by federal and reserve banking authorities, all of whom helped us materially in our task of getting at these facts, which in many cases were so hidden that no single-handed investigation on our part would ever have disclosed the real situation.

Savings Bank Division

(*Continued from page* 338)

accounts and sent them to more than 1000 banks, asking them how much interest would they pay on those four accounts, and what method was used in determining the results. That showed that there were fifty-two separate and distinct ways of arriving at their results, and the results were equally illuminating in that the amounts paid on these four typical accounts ranged all the way from nothing at all up to $135.

"The average amount was approximately $66. The majority of the banks perhaps paid between $90 and $100, although there were a sizable number of banks that would not pay anything at all on accounts of that kind. So you can see that of two banks across the street from each other, advertising interest at four per cent, one would pay nothing on one account and the other would pay as high as $135.

Worked for Many Hours

"YOU could imagine then, the difficulty that the Executive Council of the Savings Account Division had in selecting from these fifty-two methods what would be considered the ideal method of computing interest, or something that could be recommended to the bankers of America.

"As a consequence of the Council working on the information for many hours, there were four of these methods selected and which we have recommended. That does not mean that you would necessarily accept them, but I do know that you would be interested in looking over this compilation of figures and these various methods of calculating which were discovered by this committee

"This has been reduced to pamphlet form, together with the recommendations of the Executive Council, which will help you, as adopted by clearing houses since that time. But that is one of the things available through the Savings Division for your consideration.

"There have been all kinds of budget books printed and sold. The Savings Division is now engaged in preparing what it considers to be an ideal form of budget book. If you want to use a

budget book, you can obtain one from the Association at a nominal cost—the forms and completed book, with your name in print, a book greatly simplified and which has been built up, using the experiences of many banks and associations. We think we now have it right. The Division is also preparing a series of advertising pamphlets to encourage savings and to warn against speculative investments."

Trust Company Division

(Continued from page 331)

ness insurance trust is the newest form. To acquaint trust companies and banks generally with the character of these agreements and their essential features, the Division published and distributed a valuable bulletin on this subject. A survey was made during the year, showing that more than $700,000,000 in life insurance had been deposited during 1928 under trust agreements. During the year the Division sponsored and distributed a model unfunded life insurance trust agreement and a sixty-page booklet containing the answers to the hundred questions most frequently asked about insurance trusts.

"To capitalize the popular acceptance of the trust idea, the Division conducted a national inquiry to determine how many people had named banks and trust companies in their wills as executors or trustees. This disclosed that there had been a 49 per cent increase of appointments as executor and trustee for 1928, as compared with the preceding year.

"Through its special committee on taxation, the Division continued its fight against double taxation on the securities of non-resident decedents. Urging reciprocal laws, its campaign was rewarded by having fourteen new states added to this list, making a total of thirty-six states in this group. Obtaining this legislation means a lightening of the load of burdensome detail carried by the executor and the administrator and a saving of expense to the individual estates.

Three Trends Stand Out

"IN surveying the development of trust business during the past year, three trends stand out—the marked increase in trust funds, the tendency toward diversification in trust investment, and the growing use of personal selling of trust service.

"One of the great problems that the increased volume of trust business is bringing to trust companies and banks generally is how they can organize their administrative machinery to handle the trusts and estates efficiently and yet retain personal contacts. To bring about improvement in the internal administration of trust departments, the Division, within the past ten days, has distributed to all banks and trust companies with active trust departments a fifty-page booklet, embracing a recommended plan, with special forms, for checking the performance of trust duties. This plan represents a year's work of a special committee that was created to work out a model system for testing the progress and quality of trust service. It is our belief that this plan will be regarded as a notably constructive contribution to the advancement of trust service.

"To meet the needs that have been created by the other two major developments, there are two works in course of preparation that promise to be of real practical value to trust companies and banks.

Another Need Filled

"IT is found that increasing pressure is being brought for a greater diversification in the nature of trust investments. Moreover, estates that are being taken over for settlement are found to contain various kinds of stocks and bonds. This is making it imperative for banks and trust companies to keep up closely with securities. In recognition of the need for a scientific and practical plan for reviewing and surveying trust investments, a handbook covering such a system has been outlined and is now in course of preparation.

"The most striking change in the development of trust business has been the greatly increased use of personal selling. The results that have been obtained through making trust service personal to prospects are reported to have been most gratifying, and there are now several hundred personal representatives engaged in this work. It is essential

that the representatives be thoroughly schooled in trust work and also skilled in their approach. Our newest committee has made considerable headway in preparing a sales manual, outlining a course of training for trust representatives, listing selling points for each type of trust, and suggesting ready answers to general objections."

The Annual Election

AT the annual election of officers of the Division Mr. Mechem was made President and Gilbert T. Stephenson, vice-president of the Equitable Trust Company of Wilmington, Del., was elected Vice-President.

Members of the executive committee were named as follows: Roland Clark, vice-president, the Fidelity Trust Company, Portland, Me.; Robertson Griswold, vice-president and trust officer, Maryland Trust Company, Baltimore; Ralph Stone, chairman, Detroit and Security Trust Company, Detroit; H. L. Standeven, vice-president, Exchange Trust Company, Tulsa, Okla.; C. M. Malone, president, Guardian Trust Company, Houston, Tex.; A. P. Bigelow, president, Ogden State Bank, Ogden, Utah.

The growing importance of the trust department in the modern bank was outlined to the Division by James A. Bacigalupi, president of the Bank of Italy National Trust and Savings Association. He stressed particularly the change in public opinion toward the corporate trustee and predicted a continued expansion of this type of bank business. His address appears elsewhere.

The business insurance trust, which is becoming one of the more important phases of trust business, was discussed by Hillsman Taylor, president of the Missouri State Life Insurance Company. He emphasized the possibilities in this field for the smaller banks. Herman Phleger of Brobeck, Phleger and Harrison, San Francisco, described methods for protecting the trustee in the conduct of trust business. These addresses appear elsewhere in this issue.

Sisson Slated for Honor

"AN important announcement in connection with the second vice-presidency of the American Bankers Association was made by Mr. Mechem.

"In accordance with the tradition of the American Bankers Association," he said, "at the 1930 Convention it will be the turn of the Trust Company Division to nominate a second vice-president, who in due course will become president of the American Bankers Association, and I am happy to say that in our executive committee meeting this morning we unanimously and enthusiastically and unqualifiedly indorsed our beloved friend, Francis H. Sisson, for that position two years from now."

Mr. Sisson is vice-president of the Guaranty Trust Company of New York.

Clearinghouse Booklet

A BOOKLET on "Secondary Reserves and Security Buying" has just been issued by the Clearinghouse Section of the American Bankers Association. It is the third in a series of publications on commercial bank management, the earlier booklets treating of "Loan Administration Policies" and "Profit and Loss Operations."

The booklet takes up the following topics: establishing a secondary reserve; factors affecting the amount; composition of secondary reserve account; call money; commercial paper and bankers' acceptances; the advantages of bankers' acceptances; United States Government bonds in the secondary reserve; other bonds in the secondary reserve; state and municipal bonds; public utility bonds; railroad bonds and equipment trust certificates; investment trust debentures; industrial bonds; liquidity and quality of secondary reserve assets generally; maturity, diversification in assets of secondary reserve; investment account and capital structure; time deposits, investment unit and capital structure.

State Secretaries Section

(*Continued from page* 367)

ber of ways. I know that in the group of Secretaries there are men and women of great ability and that if they were in some other line they would receive much larger salaries than they are receiving today, and I have often thought that the men and women that are doing this work as Secretaries of various state associations do it largely because of their love of the work and because of the friendships and contacts that they make with the bankers in the various states.

"In the month of June, it was my privilege to attend the meeting of the Michigan Bankers Association. This organization has had for its Secretary for a number of years Mrs. Helen M. Brown. She has discharged the duty of her office in such a way that it has attracted to her the attention of all of the members of the Michigan Bankers Association. They realize the position that Mrs. Brown is in and they also realize the fact that the salaries paid to the Secretaries of the various state organizations are not large enough to create a fund that will enable them to travel constantly in foreign countries after they have given up their work in the associations that they have represented. And in considering that matter they concluded that it would be wise to make some provision whereby Mrs. Brown would never have to worry. It is likely that her duties will continue in that association—I hope they will, for the next thirty or forty years. She can work there just as long as she wants to. But, under resolution of that Association it was recommended unanimously by the Council of the Michigan Bankers Association, and adopted by the convention of the Michigan Bankers Association, that whenever Mrs. Brown desires to cease her duties as Secretary of that Association she may retire and that as long as she lives they will pay her the salary that she is now receiving.

His Greatest Ambition

"I THOUGHT that was a very fine tribute to a woman who has done this work so efficiently and satisfactorily.

"I know there are many men connected with the associations in the various states that should be taken care of in the same way by the state associations, so that when they get ready to retire they will know that they have been provided for, not on a pension but by contribution that will be made by their state associations as additional compensation for the great service that they have rendered to the organizations that they have served so long and so faithfully.

"I have an ambition to go to the head of the American Bankers Association some time. I am trying to be good and I understand that if a fellow is good after he is selected as a Second Vice-President in due time he will be advanced to the First Vice-Presidency, and then if he is good another year they will advance him to the Presidency of the Association. And after I have passed through these various offices of the American Bankers Association it is my greatest ambition that the Secretaries of the various states will be able to say, 'Well, Stephenson was a good scout and he was the friend of the Secretaries.'"

The Tax Situation

THE seriousness of the bank taxation situation at the present time was recognized by President Warner who called upon George Susens, of Minnesota, for a report on developments in that state where the legislature has appropriated $25,000 for the purpose of furthering the movement for action by Congress to amend Section 5219 of the Federal statutes.

"First of all," Mr. Susens said, "I want to thank the Secretaries for the splendid support that they gave immediately upon the passage of the bill in Minnesota which made an appropriation of $25,000 available to help fight the banks. You will recall that our office immediately sent a copy of this measure to all of the Secretaries and the fact that so few of the legislatures of the other states responded showed the good work on the part of the Secretaries in the several states.

"You are familiar with the report of the recent conference in New York where a compromise was proposed. I am not thoroughly familiar with it. I don't know just what it may mean and how it may work out, but I am told that

it is not altogether favorable to the banks.

"Whatever this compromise may be and however it may turn out, I am sure it is up to us, very much so, to cooperate with one another, because it is a problem that no single state can handle alone. I am telling you frankly right here and now that in Minnesota we have more than a job on our hands and unless you folks in these other states can do more than we have been able to do with this so-called committee in opposition to us, I am afraid the game is going to be lost, because they have made political capital out of this entire issue.

"We have been told time and time again that whenever we are willing to concede the same tax privileges to the farmer and the farmer's real estate they will be ready to talk business with us, but we will never be willing to concede that, as our taxing basis and our business generally is far different than the methods under which other businesses are taxed. We are up against it down there with such able fellows fighting us, and I appreciate very keenly the cooperation that you people in the other states have given us."

Like with Like

THE compromise proposal referred to by Mr. Susens was described by C. H. Mylander of Ohio, who said:

"The proposal made at the Saranac Inn Conference was that the measure of bank taxation which since 1863 has been that of other moneyed capital employed in competition with the business of banks should be abandoned and that some new standard should be set up. That suggestion was definitely turned down on Sunday and yesterday by the Special Committee on 5219.

"It was believed by the Committee that like should be compared with like. An investment in the shares of a national bank or a state bank, if you please, is an investment of an individual and in the taxation should be compared with the investment of that individual in which it is competing with him. Where any other standard of comparison is set up you are comparing things of two different characters and therefore I feel sure that I am correct when I say that this convention's Resolutions Committee will present to the General Convention a resolution urging the retention of the present protective principle of Section 5219, and I join with Mr. Susens in saying that it is going to take all of the work that you in your jobs of secretaries of state associations can do to maintain their protective principles in that Section."

National Bank Division

(*Continued from page* 321)

a committee of the best minds in the country to study the problems confronting national banks. He said:

"For a number of years it has been my pleasure to serve as an official in some capacity of the American Bankers Association, and particularly the National Bank Division. Twenty-six years of my career have been spent in national bank work and I am therefore intensely interested in the problems confronting national banks and the work of this Division.

"Reference has been made to our apparent decay. I would not like to have you feel that the national banking system of this country is decaying. I cannot believe that the foundation of the Federal Reserve System, recognized as the greatest reserve system the world has ever known, is due to decay.

"We are going through rapid changes; as has been said by our President, we were reluctant to adopt any program to meet the present situation for fear that in a very short time it would not fit the situation which we desired to reach. I should like to go back for a few minutes and review some of the history of the national banking system of this country, particularly its part in the general banking system.

In a Fast Age

"I AM doing this for the reason that I fear we are not inclined to adjust ourselves to new changes rapidly enough. In the beginning, this country was a large expansion of natural resources and the banking system operated in individual units in the different localities in which small populations sprung up,

served a wonderful purpose in the development of our natural resources, a much better service to the public in general and in the developing of our natural resources, than could have possibly been attained through a chain banking system such as was inaugurated in our neighbor country, Canada. I attribute the banking system there to the fact that they have not made the progress in industry and in the development of natural resources that we have in this country.

"But we asked ourselves this question: Is it not possible that we have grown up? We have grown gigantic corporations. We are in a fast age. We travel from New York to San Francisco in forty-eight hours, and around the world in eighteen days. Therefore, have we not a new situation to meet? Have we really got a problem? Is this new change a real problem? Is it a problem that is surmountable? Is it not a fact that we have just grown up and that we are slow to adjust ourselves to a situation that is perfectly natural?

"I do not feel that the group banking or chain banking problem is any more a problem from the national banking system than it is from the other state chartered institutions. And, with your co-operation and assistance, I am not apprehensive as to the final results. I know the present situation demands careful study, careful consideration and scientific analysis of all these problems. I am not going to try to say to you what I propose to do or outline any program at this time, but I am going to appoint a committee of the best minds that I can get to study the immediate problems of the national banking system."

President Barton later announced the membership of the Special Committee on National Bank Research as follows:

George H. Hamilton, vice-president of the Fourth National Bank, Wichita, Kan., chairman; Arch W. Anderson, vice-president of the Security-First National Bank of Los Angeles; Robert V. Fleming, president of the Riggs National Bank, Washington, D. C., and Edmund S. Wolfe, president of the First National Bank, Bridgeport, Conn., and vice-president of the National Bank Division. The latter, with Mr. Barton, are ex-officio members of the committee.

Safety and Profit

(Continued from page 384)

in the market would quickly show a loss in the entire list, resulting in necessary write-downs and a charge against the surplus or undivided profits accounts. Issues selling near or above the call price, which prevents further appreciation, should be exchanged for others which have possibilities of appreciation. An institution should be as ready to take a loss as a profit, if the holding is deemed undesirable.

Investing Standards

KEEPING funds fully employed is another means of increasing earnings from securities. Smaller banks frequently carry excess uninvested funds and no thought is given to employing them until a bond salesman offers a new issue which may not be ready for delivery for some time. The bank would be better off to purchase an older issue and immediately employ its funds at the coupon rate instead of waiting for the new issue and receiving the rate allowed on balances by a correspondent bank.

In this connection it should be noted by the officials of the smaller banks that there is a great deal of very valuable literature on the subject of investments and that the Savings Bank Division of the American Bankers Association will always be glad to furnish a list of such literature.

It is always well to keep a few standards in mind when investing, as:

Buy only securities of leading companies in sound and essential industries.

Have not over 5 per cent of the total in any one company. However, care should be taken that too many issues are not included. As the list becomes larger, it is better to increase the amount of those already held than to add new issues.

Keep a large percentage in government and other sound, active market bonds, the remainder in well secured but not so active issues giving a higher return, to bring up the average yield.

Hold a fair percentage of low coupon bonds which are selling at heavy discounts.

Do not continue to hold an issue which is selling materially above its investment value, either because of unusual demand or sinking fund operations.

Do not hesitate to take a loss if the security is doubtful.

Group Banking Adapted to Agricultural Needs

(Continued from page 361)

country unit bankers we should recognize the public need of this. Group banking has done much to bring into effect this accomplishment.

Group Banking Protects Individualism

GROUP banking is the logical and desirable step in bringing about banking evolution in a way that will protect individualism and retain proper sympathy and consideration of local needs. Coincident and correlative education of the public and of banking management is necessary to develop a banking institution that will meet American ideals. In this process of evolution group banking has the advantage at this time over branch banking in that legally every unit must have its own local board of directors with which legal responsibility is vested. These legally created directors have a responsibility to bank depositors that the advisory boards of branch banks do not have. This gives it for the moment the benefits of both the unit and the branch banking system, resulting in what our branch banking friends sometimes refer to as glorified unit banking.

Some of our ardent and impatient advocates of branch banking have cast unjust and unfair reflections upon group banking. As a matter of fact, group banking plays a necessary and important part in our banking evolution in that through contact and education it is bringing together through the force of legal necessity of a local board of directors the country and the metropolitan viewpoint.

Pyramiding Reserves

THE pyramiding of reserves is often referred to as a criticism of group banking. One statement recently published was that the members of a group banking organization would keep their reserves with a central institution, and assuming that such units are required to maintain a 7 per cent reserve, against demand deposits, and the central institution a 10 per cent reserve, that the system as a whole would have a reserve of 10 per cent of 7 per cent, or, in other words, 70 cents for each $100 of demand deposits. As a matter of fact, in some of the present extensive group organizations the central bank or banks have heretofore been the reserve points for the outlying banks when the business of such institutions was being operated separately and independently. This criticism as to reserves is theoretical and not practical. Assuming that the reserves are completely pyramided and that the various units operate through the bank accounts of the central institution it is still necessary for that central institution to maintain reserves and bank balances sufficient to care for the transactions of the group, and it has been found that those practical requirements will develop, as has been ascertained by actual analysis and observation, as adequate net reserves separate and apart from the group, as any branch banking organization might carry.

Another common criticism of group banking is that it is all right as long as the management is good and that when good management ceases a very bad situation develops. Management is as equally and relatively important in the unit or the branch banking system and, other things being equal, perpetuity of successful management is better guaranteed in the group organization than it is in the unit institution and as equally so as in the branch banking institution, simply because of its size, its diversified ownership and the greater responsibility of the operation which naturally attracts ability.

Group banking in its modern aspects, with standardization of systems, pooling of purchases and advertising, educational development of personnel, systematic audit and credit inspection, coordination of credit policies, specialized investment service, etc., is something entirely different from some of the old haphazard chain banking operations. Those who desire to attack group banking usually refer to the chain in Georgia, which is credited with having caused the failure of some eighty banks. Those interests simply had a management contract with

a great many banks, furnishing in connection therewith investment services. It was not a group banking organization with responsibilities of proprietorship. It developed unsound securities and through fraud foisted these upon the banks with which it had this relationship.

Modern group banking carries with it all the attributes of specialized management, service and diversification that is possessed by branch banking. Through its economies it makes for greater earning power than the same volume would in the aggregate produce for unit banks and adds thereby to the strength and stability of the operation. Through local boards of directors in the various units, with the advice and counsel of a general advisory control, group banking is in a position to serve as well or better the agricultural needs than any other form of banking, since it carries with it full sympathetic consideration of local needs tempered by sound impersonal credit policies and capacity to care for all local legitimate requirements.

The General Sessions

(*Continued from page* 301)

banks in that division forced into his notice. There had been many failures of banks, both state and national, prior to and during the period that Mr. Hazlewood served as President of that Division. He, being a technician of the scientific type, sought first of all to discover the reason for these failures, and, without question, his conclusion that improved bank management was the element that needed to be stressed was the result of his careful study of general banking conditions.

"It would be futile to rehearse what he has done during his service to the Association toward the better management of banks. His written contributions alone have placed the American banker heavily in his debt. His papers have been many. They have been carefully thought out. They have been presented in a readable, instructive manner, and they immediately commanded both the attention and the respect of the banking fraternity. But in addition to these, he attended State Bankers' Association Conventions the country over, and his forceful and logical addresses on the responsibility of the banker to his bank and his community, expressed through better bank management, have been scholarly, eloquent and informative.

In Appreciation

"MR. HAZLEWOOD, we gladly, appreciatingly acknowledge our debt to you. Expressions of appreciation in the field of honor have been exhausted, so let the measure of our gratitude be surmised in that the highest honor at our command was conferred upon you. With the close of today's session it will be our pleasure to remember you as one who has served creditably as President of this great Association. But we want also to have constantly with you something that will remind you of this strenuous year, that while not intrinsically, will, nevertheless, symbolically be an added expression of our appreciation.

"I learn that you are about to take your family into a new home. It is a fine thing to have a home that is really one's own. In addition to stability, it bespeaks of permanence, and we want to build permanently into your home an expression of our respect for your ability as a banker and our affection for you as a man.

"There are few men who have achieved who do not owe much of their achievement to some woman who has stood steadfastly and loyally for the best that is in the man. It is, therefore, fitting that Mrs. Hazlewood should share in this gift of remembrance. Here it stands before you. Take it to your new home. Keep it in constant use, as we, your many friends in the banking fraternity, hope to be kept in your affection and your memory.

"If stores of dry and learned lore we gain,
We keep them in the memory of the brain;
Names, things, and facts—whate'er we knowledge call,—
There is the common ledger for them all;
And images on this cold surface traced
Make slight impression, and are soon effaced.
But we've a page, more glowing and more bright,
On which our friendship and our love to write;
That these may never from the soul depart,
We trust them to the memory of the heart.
There is no dimming, no effacement there;
Each new pulsation keeps the record clear;
Warm, golden letters all the tablet fill,
Nor lose their lustre till the heart stands still."

Real Enjoyment

IN response Mr. Hazlewood said:

"I have seen this ceremony a good many times. I am naturally of a phlegmatic disposition, yet I can say to you that the ideas and the thoughts that come to your mind are quite different when you are sitting down there and when you are standing where I am.

"There is a feeling of detachment, of course, in seeing someone else pass out of the picture. It does not mean very much to one's self. The man, however, that is taking the execution has a feeling that is probably quite mixed. It is so with me.

"Many people have said to me in the last day or so, 'Aren't you glad you are through?' and so forth. No, I am not glad I am through. I have had a lot of fun out of this. I have had a lot of real enjoyment out of the satisfaction of trying to do something to help banking.

"I would say that the results that we may have been able to get are only about five or ten per cent of what they ought to be. It is a mistake for any one, I think, to dissemble to others, and certainly it is a mistake to dissemble to one's self.

The Key Factor

"I KNOW very well that this task we set about at the beginning of the year and which I announced to you at Philadelphia—that we were going to try to help improve banking methods, banking technic, banking operation—was only started, was only partly done. We have stirred up a lot of interest about it. We have heard a lot of talk about it. There has been a lot of material written about it. It has not been unproductive of good. On the contrary, I am perfectly sure in my own mind, without trying to dissemble to myself, that we have improved, that this Bankers Association has improved the quality of bank technic in this country.

"And I do not care where this development goes—these economic changes, these changes in methods of organization that we have been talking about for the last few days, the element of management enters into every one of them.

"Do you not recall, as you have heard these addresses, that each man, in advocating his own particular form of management that he believed in, pointed out instances of bad management that had occurred in unit banking, if he was talking for branch banking; that had occurred in group banking, if he was talking for branch banking; and if he was talking for unit banking, did he not refer to the failures of the groups here and there, and to the failure of the branch system in Canada, and so on?

"It all resolves itself to this: that management is the key factor in the success of any of these types of organization.

Symbol of Friendship

"IF we can only sell that idea, if we can only have the bankers of this country feeling that that is the important thing, that management, after all, is the important thing—not depending on the quality of management that is put in —we can sell that one idea so that it is carried out to all the boys that are sitting in the bank offices feeling quite contented with themselves, who are operating their banks as they did twenty-five years ago; that is the objective it seems to me that is worth while. That is what we have attempted in a small way to do this last year, and had a lot of fun at it.

"So referring to the matter of my feelings about it, I do not have any regrets. I do not have any broken-down feelings. Of course, when a man talks of your wife and your children, then he is likely to stop you in your ordinary course of thinking. That is different. That comes pretty close to the heart, and this symbol of the friendship of this association for me is something that is also touching to the heart.

"I do not think you need have any oversentimentality in your system to appreciate the kind of gift that this is, and the kindly spirit that goes with it. I would not give, oh, I cannot name a figure, but I would not take anything for the friendships, the real, personal, honest friendships that I have among the members of this Association.

A World of Difference

"A FRIEND of mine said the other day—he was rather bragging—'I guess I have the largest acquaintance of

almost anyone in my trade or profession.'

"I said: 'Yes, I think that is probably true. But did you ever figure out how many friends you have?'

"And there is a whole world of difference.

"We know each other. We make the acquaintance of one another and we form a friendly regard for each other. But unless we know a person well and intimately we do not know all his mental reactions. We do not know how far he is real and how far he is spurious.

"I asked Sam Crawford once who got along best in the world, those who dissembled or those who told the truth. 'Well,' he said, 'I would have to say that those who dissemble get along best temporarily, but I think in the long run those that are real get along best.'

"That is my opinion, and there are a lot of real folks in this association. I have made a lot of real friends among them, and I shall cherish those friendships as long as I live."

Agriculture Needs Branch Banking

(*Continued from page* 363)

In case of the branch bank, however, the relief is automatically furnished and the loss is readily absorbed by the system of which the branch is a part.

Some are advocating, as a remedy for the deplorable plight of the small unit bank, better management. Theoretically that is all right, but in practice it will not work. The small bank cannot afford to pay the salary necessary to secure the services of a well-trained, experienced and capable bank officer.

There are those who advocate the requirements of a larger capital stock paid in. This, no doubt, would greatly improve the situation, if it were practical. But as pointed out, the larger bank could not earn a dividend, and it is conceded by all that no bank can be strong or safe which does not earn a dividend for its shareholders. It will be seen, therefore, that the branch bank is most suitable and most serviceable as well as most dependable for such localities.

Distribution of Loans

IT is essential that a bank have its loans, and likewise its deposits, diversified. This can best be accomplished by the branch bank. Even where all branches of the system are located in an agricultural section, there are sufficient varieties and differences in soil, labor, farming methods, etc., as to give the bank a fairly wide range or classification of its business. At one point there will be a number of large land owners who accumulate funds and do not borrow; at another there will be a number of small land-owner farmers who borrow in small amounts; and still another will have plantation owners who use considerable credit.

I have in mind two towns in the cotton belt, each with about 500 population, situated twelve miles apart. Apparently conditions in these towns, as well as the surrounding country are much the same—all cotton farmers. These two towns are each served only by a branch bank of the same system. At the smaller town, deposits in winter are $600,000, but drop to $425,000 in summer; loans go up from about $100,000 in winter to $220,000 in summer.

At the somewhat larger town, deposits are $240,000 in winter but drop to about $90,000 in summer, while loans range from $8,000 in winter to $190,000 in summer. It will be seen that, even in midsummer, these banks collectively are able to take care of themselves. But imagine a small unit bank, starting off with $240,000 deposits and $8,000 loans, experiencing a drop in deposits to $90,000 and at the same time its loans up to $190,000. Nothing but a branch banking system can take care of fluctuations like this.

However, the best distribution of loans is brought about by the branch banking system operating in towns of varied size and industry. There should be, as there usually is, a sufficient number of banking offices located in the larger towns where there are industries, railroad shops, manufacturing plants and business houses, as to enable the system to accumulate deposits with which to supplement the local funds of the smaller branches during the crop making season, and to employ to advantage the surplus funds coming in from these branches during the winter months.

In further support of the statements

made favorable to limited branch banking, I am quoting some authorities who are well qualified to speak on this subject and whose opinions should carry much weight: As early as 1892 Charles F. Dunbar, Professor of Banking at Harvard, wrote an article published in the *Quarterly Journal of Economics* in which he declared that many of the banks being established in agricultural sections of the West were below the minimum of safety and stated, "with their trifling resources, it is impossible that they should command for their service such experience and capacity as their operations, although on a small scale, really required in the interest of the community." He suggested the branch bank as a solution to this problem at that time.

Some years later, Comptroller of the Currency, Charles G. Dawes, in his annual report for 1898 has this to say: "The Comptroller recommends, in accordance with the former recommendations of his predecessor, that domestic branch banking should be legalized in communities of less than two thousand inhabitants, many of which are now unable to support independent banks. This would afford some smaller communities banking privileges which are now without them but would not materially interfere with the scope of the work now so well performed by existing banks of the smaller communities."

In an address before the Alabama Bankers Association two years ago, Edmund Platt, Vice-Governor of the Federal Reserve Board, who has spent many years of research and study of this subject, strongly recommended limited branch banking for the smaller communities. In speaking of the great number of bank failures in agricultural sections he said: "The small towns would have been saved much money and much unnecessary distress if they had been given banking accommodations by means of branches of larger banks instead of little local independent banks. A considerable part of the depression in the great agricultural states today and for the past several years has been due to the loss or locking up of the money of the farmers in the numerous small bank failures." Later on, in the same address, Mr. Platt makes this statement: "In my opinion, instead of stopping or even discouraging the establishment of country bank branches the practice should be encouraged through consolidations of present small banks, as a sound, sensible way of extending better and safer banking facilities to small places."

In One Narrow Territory

QUOTING Mr. Platt further "Branch banking for country banks would do for country banks to some extent at least what big city banks are able to do without branches, namely, extend their risks over a wider territory with greater diversification." Still further, after pointing out the advantages enjoyed by the large unit banks in the East, Mr. Platt continues: "Conditions are very different in the West and in much of the South, where most of the smaller banks cannot from their own resources take care of peak local demands, and are practically forced to loan all their money in one narrow territory and frequently to one class of industry or even on one crop. Under such conditions independent unit banking is necessarily dangerous, and no amount of supervision or burdensome legislative restrictions can make it as safe as it should be. The only remedy, in my opinion, is the remedy which has been successful in every other commercial country—branch banking."

After discussing the attitude of the bankers themselves regarding branch banking, Mr. Platt goes on to say: "Limited branch banking would be far better for bankers, small and large, than many of the legal restrictions proposed, and country bankers in their own interest should seriously study the subject of limited country branch banking as a real remedy for bank failures."

During recent years the public is taking an interest in this important subject. Typical of this interest and thought is an editorial appearing some months ago in "World's Work," entitled "Too Many Bank Failures." This editor states that "the meaning of this epidemic of bank failures is that unit banking in areas depending upon a single crop or single industry is fraught with exceptional hazards. Safety in banking flows from a capacity to diversify loans—to keep all the eggs out of one basket." He goes on to say "Up to the present time the issue of branch banking has resolved solely around the bankers' interest. The time has come to consider the question from the broader standpoint of the depositor and the borrower, whose interest is closer to the public weal." Needless to add, this editor strongly suggests branch banking as the logical solution.

To summarize, the banking needs of agriculture may be expressed in two words—safety and service. In this discussion I have endeavored to show how and why limited branch banking is superior to other forms of banking in agricultural communities as to these two essential points. I regret that I have been limited on the subject to branch banking as it applies to agriculture, as I should like to have opportunity to discuss the many other advantages that apply in a general way, such as economic advantages in operations, collective advantages of advertising and good will, susceptibility to expert supervision and good management, as well as many other important features not found in other forms of banking.

Modern Investigation

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differencee between analysis and investigation is that the former usually produces tangible results.

Investigations often are necessary and desirable, and from some, great and lasting good has resulted, but too much human action has been headed into the blind alley of investigation and there spent itself in sifting and sorting and phrasing reports, which when published have received scant attention.

Some investigations are suggestive on a large scale of the farce in which the two innocent young men in Dickens' "*Great Expectations*" indulged themselves as they sunk deeper and deeper into debt:—

At certain times, as the story runs—meaning at uncertain times, for they depended on our humor—I would say to Herbert, as if it were a remarkable discovery:

"My dear Herbert, we are getting on badly."

"My dear Handel," Herbert would say to me in all sincerity, "if you will believe me, those very words were on my lips, by a strange coincidence."

"Then, Herbert," I would respond, "let us look into our affairs."

We always derived profound satisfaction from making an appointment for this purpose. I always thought this was business, this was the way to confront the thing, this was the way to take the foe by the throat. And I know Herbert thought so too.

We ordered something rather special

for dinner, with a bottle of something similarly out of the common way, in order that our minds might be fortified for the occasion, and we might come well up to the mark. Dinner over, we produced a bundle of pens, a copious supply of ink, and a goodly show of writing and blotting paper. For, there was something very comfortable in having plenty of stationery.

I would then take a sheet of paper, and write across the top of it, in a neat hand, the heading, "Memorandum of Pip's debts"; with Barnard's Inn and the date very carefully added. Herbert would also take a sheet of paper, and write across with similar formalities, "Memorandum of Herbert's debts."

Each of us would then refer to a confused heap of papers at his side, which had been thrown into drawers, worn into holes in pockets, half-burnt in lighting candles, stuck for weeks into the looking-glass, and otherwise damaged. The sound of our pens going, refreshed us exceedingly, insomuch that I sometimes found it difficult to distinguish between this edifying business proceeding and actually paying the money. In point of meritorious character, the two things seemed about equal.

When we had written a little while, I would ask Herbert how he got on? Herbert probably would have been scratching his head in a most rueful manner at the sight of his accumulating figures.

"They are mounting up, Handel," Herbert would say; "upon my life, they are mounting up."

"Be firm, Herbert," I would retort, plying my own pen with great assiduity. "Look the thing in the face. Look into your affairs. Stare them out of countenance."

"So I would, Handel, only they are staring me out of countenance."

However, my determined manner would have its effect, and Herbert would fall to work again. After a time he would give up once more, on the plea that he had not got Cobbs's bill, or Lobbs's, or Nobbs's, as the case might be.

"Then, Herbert, estimate; estimate it in round numbers, and put it down."

"What a fellow of resource you are!" my friend would reply, with admiration. "Really your business powers are very remarkable."

I thought so too. I established with myself, on these occasions, the reputation of a first-rate man of business—prompt, decisive, energetic, clear, cool-headed. When I had got all my responsibilities down upon my list, I compared each with the bill, and ticked it off. My self-approval when I ticked an entry was quite a luxurious sensation.

My business habits had one other bright feature, which I called "leaving a Margin." For example: Supposing Herbert's debts to be one hundred and sixty-four pounds four-and-two-pence, I would say, "Leave a margin, and put them down at two hundred." Or, supposing my own to be four times as much, I would leave a margin, and put them down at seven hundred. I had the highest opinion of the wisdom of this same Margin, but I am bound to acknowledge that on looking back, I deem it to have been an expensive device. For, we always ran into new debt immediately, to the full extent of the margin.

But there was a calm, a rest, a virtuous hush, consequent on these examinations of our affairs that gave me, for the time, an admirable opinion of myself. Soothed by my exertions, my method, and Herbert's compliments, I would sit with his symmetrical bundle and my own on the table before me among the stationery, and feel like a bank of some sort, rather than a private individual.

Such seems to be the outcome of many modern investigations.

Unit Banks Must Unite

(Continued from page 353)

cultural sections of this country. There were other causes far greater.

The industrial and business interests were highly organized and most generously safeguarded by the protective policies of our government while the unorganized and non-cooperative business and agriculture of other sections were left floundering in the slough of despond. Not until within the last year has this country ever undertaken any direct protection to agriculture and, without credit organization and market protection, supervision was helpless and hopeless to a large degree. Markets could not be provided; neither could values be regulated so as to make the rural Mississippi Valley prosperous. Regulatory laws, administered by less fickle departments, would have been contributory to better banking but in no sense are the principal cause of the break-down.

Dazzling Splendors

I INSIST that it was ignorance of controlling factors, due almost wholly to failure to organize and to cooperate, and no other one thing is doing more today to render the position of the rural unit banker untenable than just this condition. It is a comparatively easy matter to supervise organized efficiency, but quite a different task to regulate chaos where each is for himself and the devil taking the hindmost.

It is true that Missouri had 226 bank failures during the years from 1920 to 1928; that Minnesota had 284; that Iowa had 359 and other agricultural states a proportionate number, with an examiner for every eighty banks, while New York had one examiner for every seven banks and had but eight failures. But the size of the banks and the conditions governing business relations, together with incompetent management employed by small unprofitable banks and the utter absence of organized cooperation and not the supervising agencies, were the controlling factors.

There is a great deal of merit to the contention that supervisors of state banks should be given the power to reject applications for new charters. In my state that power was not permitted until July 1927, and since that date not one charter has been granted for a competing bank. Prior to that time, and especially during the mirage days of fancied inflation, spite banks, job banks, church banks, and what not were organized in Missouri, until at one time we had more state banks and trust companies than any other state in the Union.

When the dazzling splendors of what was believed to be, but which was not, the rainbow of promise faded away, these morning glories of a financial spree withered and died, not due to the breakdown of the supervising agency, which was shorn of power, but due to poor management, weaknesses in our laws, and the utter lack of coordinated and organized direction.

Healthy and Free

THE thought I am trying to put over is not new. I am merely a satellite trying to pass on, if possible, what has been advocated by the best banking minds of this and other countries for decades, and which is crystallizing in the form of chain, group and branch banking. The proponents of this type of banking advance as their most compelling argument the advantages to be obtained through organization, cooperation and central control.

They tell us that our unit system has demonstrated its weakness and inability to function properly under existing conditions, and in states where branch banking is not sanctioned by law, holding companies are being formed to acquire control of a large group of banks under one super-directing agency. This they tell us will provide better control of credit extensions, prevent duplications and in divers ways do what we insist and in divers ways do what we insist without reducing individuality to a mere automaton. The regional clearinghouse associations and credit bureaus are today great constructive forces in banking. Their value is no longer a matter of opinion for results speak for themselves.

There has never been anything yet devised comparable to this form of organized cooperation for keeping healthy and free from the overlapping and duplication of credit extensions which has been so destructive to rural banks.

Outspoken in Praise

DURING the past six months, we have organized, in Missouri, two regional clearinghouse associations embracing ten counties with some 200 banks affected. I attended a meeting of bankers in one of the groups and found bankers outspoken in praise of the benefits derived. It was unanimously declared that they would not be without the protective features for many times the cost. In the other group, I quote from a letter from a member bank:

"Our group made up of nine counties, has been functioning since June of this year. Out of $340,000 in loans and discounts in this bank, we had ninety-eight borrowers who apparently owed other banks. Needless to say, we were very much surprised with some of these duplications. As for our bank, we would be willing to pay several times what we are now paying to continue this service. If there is anything I can do to get nonmember banks to join, I will gladly do it."

I am pleading in my state and extending that plea to bankers all over this country to present a united front in organization which can accomplish, through cooperation, the preservation of the individual or unit system of banking. It is to individual ambition and individual genius that the greatness of this country must be attributed. No other nation in all the world's history presents such masterful arguments in defense of individual ownership and direction as does this nation. Stifle the ambitions of the individual and you check the progress of the nation. Reduce our incomparable financial structure to a condition of financial feudalism, and you have reduced our bankers to a state of the bond and the free.

WITH a little more than 1 per cent of the banks of this country controlling 72 per cent of the banking resources of the country, I ask, in all seriousness, if it is not about time to follow industry in the principle of organized cooperation, each with and for the other for mutual profit and preservation.

It must be admitted, however, that banking is coming to be looked upon as a science, and that there are greater funds of information available, pointing out dangers and setting forth sound banking principles and practices, now than ever before, in all fields and departments of banking, there is available an abundance of good literature on the best thought in banking, and none need be ignorant of the best there is in the field of commercial banking. But to translate into action what others have done

and are doing, we must have, in rural communities, that fountain head, the rural credit bureau or the regional clearinghouse organization on which bankers may draw for guidance and protection. There is no other source to which they can go.

Restrictions on state banking departments preclude the possibility of passing the data along. We cannot if we would. Things are happening in banking today perhaps as never before and there is need for new thinking and concerted action. There was a time when the rural banker could sit down and go it alone, but owing to the enlarged service required and the increased hazard attending that service, he can no longer take that position. While there is much of merit in other systems, I favor unit banking, but am convinced that only through changed policies and additional safeguards provided through organization and cooperation, can the unit bank survive.

Regional Cooperation Pays Dividends

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that it costs from two to three cents each to handle checks drawn on your own bank. Is five cents too much to charge for handling the small out of town items?

Sound and Fair

THE second case covers, say, an item of $1,000 on a point that takes the bank three days to collect. The float charge of 6 per cent per annum is seventeen cents per day on $1,000, three days will be three times seventeen cents or fifty-one cents, which will be the charge either for cashing this item or placing it to the depositors' credit.

Let me put a little more logic and reasoning into the thing. Why do men or corporations keep checking accounts? Because they could not run their business today without an account. They do not keep a bank account to bring the bank money any more than you buy groceries to please the grocer. Ask any fair-minded customer if he wants you to handle his business at a loss. We have asked many of them and they all say, "Certainly not."

A merchant tells you what he will charge for a certain article. Do you feel that he must tell you what it cost him and then you analyze his overhead and tell him what he should charge? No. You have confidence in him, believe he is fair and far be it from me to suggest a charge which I do not feel is entirely sound and fair.

We should make our charges as bankers just as the merchant does. Know our costs, add a reasonably fair profit and charge accordingly.

Many bankers have asked me about the customer who keeps a large checking account balance. If the account is very active, we explain to him that it takes a very large balance to pay the cost of handling so many checks and deposits. If inactive, we ask him to leave a few dollars in his checking account and transfer the balance to a savings account. We will then very gladly pay him interest on these funds which he has agreed to leave with us for a definite length of time.

Nearly all of the banks in the large cities have had these charges for years. Why should the poor country

banker be expected to show his customers favors and handle business at a loss when the city bankers with enormous earnings will not do it for their customers. One reason why the stock of the city bank is so valuable and one reason why they make so much money is because of these charges.

A banker in one of the larger cities told me that he knew that they could not possibly operate their bank on the income from their loans, that is, without these additional charges. Much less can a country banker do it. We have been trying to in the last few years and that is one thing that is the matter with most of us.

The float charge is the big money maker, the gold mine which has been right at your door and which you have been overlooking. You should make approximately 1 per cent on your total subject to check balances on the float item alone. Think of $3,300 a year net on $325,000 checking account balances, but you have got to cooperate with your competitor to do it. If you are too selfish to cooperate, you will have to work out your own salvation and it is going to be tougher for you all the time.

It Is So Simple

THIS float charge is not installed without some trouble. Many of the customers will, of course, complain bitterly at the initial charges, but it will not be long before they become accustomed to the operations, see its justice and after a few weeks the subject will seldom be brought up in daily conversation.

The American Bankers Association is behind the clearinghouse. It is not original with us at all. Our float charges were made up absolutely verbatim from the charges as used by the Minneapolis and St. Paul Clearing Houses, except that they were just a little higher in each case.

How did we organize originally? Why, it is so simple.

The bankers from the three Bemidji banks held a meeting. At this meeting we agreed to call a meeting of the banks in the territory. At this latter meeting a committee was appointed to draw up a constitution and rules. Within two weeks another meeting was called and all the bankers present signed up.

As to publicity, the three Bemidji banks took a full page ad in the local daily paper for one issue over their joint signatures and schedules of the charges were furnished to the banks' customers who requested them. As far as we know, the smaller banks had no publicity, although they should have.

CERTAINLY all will agree that no customer can be allowed to bank with you at a loss to the institution. However, the rules cannot be unrelenting. For instance, we have a rule, as does Minneapolis and St. Paul, that the bank has the privilege of waiving a charge where the balance is satisfactory and the total charge for the month does not exceed $1.

To drive this home a little harder, I sum up the various charges and the additional earnings made through this cooperation.

First: reduction in interest rate saves us (only 10 per cent of deposits lost)	$3,000
Second: service charge (lost a few accounts)	1,200
Third: sundry charges (no trouble)..	500
Fourth: the beautiful Float Charge..	3,300
Total	$8,000

These are our individual earnings and have averaged this for over one and one-half years. This is 16 per cent on the capital stock of our bank. It has been earned without any risk. It has also developed the standing of the banks in the community and has increased the confidence of the public in our integrity and soundness. These facts are equally vital with the earnings and they have been working out together entirely to the benefit of the banking interests of the territory.

Unit Banking Best

(Continued from page 358)

baby chicks and better breeds of poultry. These two banks are using their deposits where they are made and are not sending them to financial centers to be loaned to industry at a low rate. Which system is best serving its community? I will leave it to you to answer.

Educational Foundation

TOTAL contributions to the Educational Foundation of the American Bankers Association now amount to $462,897.12, it was reported at the San Francisco Convention.

Loan scholarships allocated to colleges during the scholastic year 1929-1930 numbered 111 as compared with 98 in 1928-1929 and loan scholarships of $250 each awarded to students during 1929-1930 numbered 29 as compared with 37 in 1928-1929.

A. B. A. Key Book

THE eleventh edition of the Key to the Numerical System, American Bankers Association, will be issued this month. Its contents will be a complete list of American banks, revised to date, with transit numbers. The book will be cross-indexed so that each bank with its official number appears twice—numerically by transit prefix and individual transit number, and alphabetically under its state and city.

The Clearinghouse Section of the American Bankers Association has prepared an explanation of its transit system and detailed recommendations as to forms and procedure in connection with transit items. It has also supplied standards for the simplification of checks, drafts, notes and other commercial instruments. These will appear in a special section of the Key Book.

Rand McNally & Company, of Chicago, as official numbering agents of the American Bankers Association, print and distribute the Key Book. The volume, as usual, will comprise about 600 pages, cloth bound. Its price, as in the past, will be $2.50 per copy.

Condition of Business

(*Continued from page 398*)

and traded in on January 2 last, more than half are now selling lower than at the beginning of the year. This reveals how selective the market has been and makes the enormous increase in brokerage borrowings hard to explain. There are doubtless a number of contributing causes, including (1) large offerings of additional stock by industrial companies, (2) flotation of scores of investment trusts and holding companies, (3) the rise in bank stocks and other unlisted issues, and (4) distribution of stocks by outright holders to those who must borrow to take up their purchases.

This year has seen a record for volume of new financing, but the character of it has changed from a predominance of bonds, notes and other fixed-term obligations or preferred stocks, to common stock. Some idea of how the bond market has lost importance can be seen from the following table compiled by the *Wall Street Journal* showing the amount of bond financing in the first eight months of the past two years, classified according to type.

NEW BOND OFFERINGS
(000s Omitted)

Type	Eight Months 1928	Eight Months 1929	Per Cent Change
Railroad ...	$293,959	$170,626	— 42.0
Utility	915,544	473,104	— 48.2
Industrial ..	519,373	303,284	— 41.7
Municipal ..	484,755	509,273	+ 5.1
Canadian ...	160,449	244,105	+ 52.1
Foreign	907,270	215,050	— 76.4
Realty	237,640	152,828	— 35.7
Miscellaneous	92,450	210,595	+128.0
Total	$3,611,440	$2,278,866	— 36.6

This falling off is little short of astounding. Railroad bond issues dropped 42 per cent, utility 48 per cent and industrial 41 per cent. Municipals and Canadian were larger and miscellaneous went up because it included investment trusts. Foreign bond offerings were 76 per cent below last year and realty bonds 35 per cent lower. The implications of this drying up of the bond business are not difficult to see, and the decline in building construction has already reached a serious stage. Likewise there has been a serious drop in foreign credits, which combined with the attraction of foreign funds to America and the resultant drop in foreign exchange quotations, has caused banks all around the world to raise their rates so as to protect gold reserves, a situation that cannot but injure our export trade in agricultural products, machinery, and other manufactured goods that for years have been advertised in the markets of every country.

Domestic business has been able to finance itself to some extent by stock issues, yet a large part of stock issues represents borrowing by investment trusts and is therefore a duplication inasmuch as the funds later go into securities of producing concerns. Last month the *Commercial and Financial Chronicle* published a table showing the offering of investment trust, holding company, etc., securities this year

amounted to $1,596,637,000 in the first eight months. A check of the detailed lists of new offerings for the corresponding period of 1928 shows only about $240,000,000 of this character.

During the month of September the largest bond issue was $50,000,000 sinking fund debentures with warrants attached of the Shell-Union Oil Corporation, due in twenty years and priced at 100.

The Outlook for Money

THE money situation showed no important change in the past month, according to reviews of leading banks. Demand for credit continued strong and money rates continued firm. The advance of the rediscount rate at New York produced no striking results. Stock prices had a few days of weakness but generally resumed an upward trend. There has been no sign of general liquidation, except for one or two brief periods.

Regarding the credit situation, the Guaranty Trust Company of New York says:

"As was generally expected, the borrowings of member banks from the Federal Reserve institutions have declined; but this movement has been more than offset by the increase in holdings of bills bought in the open market by the reserve banks, so that the total amount of reserve credit in use has increased somewhat. This trend is quite natural, however, with the seasonal increase in the demand for banking accommodations, as reflected in the steady rise in 'all other' (mainly commercial) loans of member banks. In fact, the use of reserve credit might easily have been expected to increase more than it has; and it would probably have done so except for the continued, though reduced, inflow of gold."

Reviewing the demand for money, the National City Bank of New York says:

"Undoubtedly the increased volume of commercial borrowing reflects the high volume of general business activity. Lately the pace of business expansion has appeared less rapid, notwithstanding which these loans have continued to increase, occasioning some speculation as to whether the movement may not reflect in part some unhealthy accumulation of inventories. Business, however, has been averse all along to accumulating stocks of goods greater than seem warranted by the increased volume of sales, and the tendency in most lines has been to apply prompt correctives upon any sign of a clogging in channels of distribution. Moreover, with prompt and efficient railway transportation and the absence of rising prices there has remained little incentive for inventory accumulation. The congestion in the movement of wheat, caused by slow export demand, a large carryover from last year, and heavy shipments from the new crop, has doubtless been a factor, however, in this situation."

State Bank Division

(*Continued from page* 349)

the belief that the unit system of banking which has stood the test of time will always have a most important place in our American system of banking. Whatever the forms may be we will all agree on the importance and fairness of parity of treatment at the hands of our law-makers and those who administer under the statutes.

"We cannot but express our opposition to the plans as enunciated by the Comptroller of Currency because it was believed that, if carried out, they would result in giving new and unfair advantages to national over state-chartered institutions. The appointment on the part of Congress of a committee of experts to study carefully anew various phases of banking is of course to be welcomed by our membership. We record, however, our opinion that any such committee so appointed should include in its personnel those thoroughly cognizant of banking in all its phases and forms; that one-half of such committee should be composed of those now in close touch with banking corporations operating under state charters.

"Irrespective of mergers and combinations the State Bank Division closes this year with a membership exceeding ten thousand, with a net increase of over two hundred members. The expression of such manifest interest on the part of our constituency is evidence of the appreciation in which the members esteem and value their national association."

Acceptance Business

(*Continued from page* 387)

volume, they still totaled $505,000,000 on Aug. 28, but at this time their holdings were less than 40 per cent of the outstanding volume.

Already Recognized Abroad

THE practice of putting the "reserve" force of the central banking system at work to relieve any credit stringency in seasonal crop operations brought the Federal reserve banks into the bill market again and their holdings have now increased $81,000,000 to a total of $156,000,000 since the low point in July.

This action, timed with the seasonal increase in the total volume of bills, has kept the discount market well balanced and has enabled the dealers to keep acceptance rates at a level that will benefit the agricultural crop borrower.

The prospect for acceptances has never been better. The country has a class of accepting banks that will be able to take care of a very much greater volume of business than at present. They will create a constant supply of prime bills financing the world trade of the United States. These bills are already recognized in all foreign markets and will continue to attract foreign funds seeking investment here. It is believed that the discount market will acquire more influence and an independence of artificial props as the banks recognize the necessity of such a market to move their bills.

Statement of Ownership

¶STATEMENT OF THE OWNERSHIP, MANAGEMENT, CIRCULATION, ETC., REQUIRED BY THE ACT OF CONGRESS OF AUGUST 24, 1912, of AMERICAN BANKERS ASSOCIATION JOURNAL, published monthly at New York, N. Y., for Oct. 1, 1929.

¶State of New York, county of New York, ss. Before me, a Notary Public in and for the State and county aforesaid, personally appeared James E. Clark, who having been duly sworn according to law, deposes and says that he is the editor of the AMERICAN BANKERS ASSOCIATION JOURNAL and that the following is, to the best of his knowledge and belief, a true statement of the ownership, management (and if a daily paper the circulation), etc., of the aforesaid publication for the date shown in the above caption, required by the Act of August 24, 1912, embodied in section 411, Postal Laws and Regulations, printed on the reverse of this form, to wit:

¶1. That the names and addresses of the publisher, editor, managing editor, and business managers are: Publisher, F. N. Shepherd, 110 East 42nd Street, New York, N. Y.; editor James E. Clark, 110 East 42nd Street, New York, N. Y.; managing editor, none; business manager, James E. Clark, 110 East 42nd Street, New York, N. Y.

¶2. That the owner is: (If owned by a corporation, its name and address must be stated and also immediately thereunder the names and addresses of stockholders owning or holding one per cent or more of total amount of stock. If not owned by a corporation, the names and addresses of the individual owners must be given. If owned by a firm, company, or other unincorporated concern, its name and address, as well as those of each individual member, must be given.) The American Bankers Association, 110 East 42nd Street, New York, N. Y. (A voluntary unincorporated association of banks: John G. Lonsdale, Mercantile Commerce Bank & Trust Co., St. Louis, Mo., president and F. N. Shepherd, 110 East 42nd Street, New York, N. Y., executive manager.)

¶3. That the known bondholders, mortgagees, and other security holders owning or holding one per cent or more of total amount of bonds, mortgages, or other securities are: None.

¶4. That the two paragraphs next above, giving the names of the owner, stockholders, and security holders, if any, contain not only the list of stockholders and security holders as they appear upon the books of the company but also, in cases where the stockholders or security holder appears upon the books of the company as trustee or in any other fiduciary relation, the name of the person or corporation for whom such trustee is acting, is given; also that the said two paragraphs contain statements embracing affiant's full knowledge and belief as to the circumstances and conditions under which stockholders and security holders who do not appear upon the books of the company as trustees, hold stock and securities in a capacity other than that of a bona fide owner; and this affiant has no reason to believe that any other person, association, or corporation has any interest direct or indirect in the said stock, bonds, or other securities than as so stated by him.

¶5. That the average number of copies of each issue of this publication sold or distributed, through the mails or otherwise, to paid subscribers during the six months preceding the date shown above is.—(This information is required from daily publications only.)

JAMES E. CLARK,
Editor.

¶Sworn to and subscribed before me this 18th day of September, 1929.

¶Lucy P. Berry, Notary Public, Kings County; Clerk's No. 495, Register's No. 682; New York County Clerk No. 1588, Register's No. 0-52A.

¶Commission expires March 30, 1930. [SEAL]

INDEX TO ADVERTISERS

WHAT DO YOU THINK?

Being a more or less personal talk between the EDITOR *and the* READER

People Will Talk, You Know

IS this a good advertisement for a bank?

We heard the other day of a father who, contemplating the size to which his child's school savings fund had grown, figured out what it was earning at the advertised and promised rate of 4 per cent, compounded semi-annually—a goodly sum for so young a member of society.

"But, father," said the youngster, "the bank did not give me that much interest, see?"

Whereupon father figured it again and yet again and could not make his findings correspond with what the bank had allowed.

He asked the bank for its method of fig-

uring interest, went back home and tried it again, but still arrived at a sum in excess of that which the bank had credited on the book of the child.

Again presenting himself at the bank with his problem he told an official that the interest credited was less than that which should have been credited at the rate announced and by the method given.

"We tried to do it," was the essence of the final explanation, "but there are so many costs in connection with these school savings that we could not pay 4 per cent."

What one adult and one child can discover, many adults and many children may discover, and thus discovering a discrepancy between what a bank says it is doing and what it is actually practicing does not add to the confidence of the public in the bank. In all cities the news gets around. In many small places a whisper can almost beat the postman in the rounds of the town.

We think that practice is a poor advertisement for a bank and a poor example to set up within the institution.

The habit of thrift is a good habit to inculcate, but what must be the effect upon children of impressionable age who may discover the discrepancy between what the bank avows it is doing and what it actually is doing?

Some philosopher has declared that the sands of the desert have eyes. We will not question that, but everyone knows that the people of all communities, especially small communities, have ears—and that they hear a lot!

It is related, also, that in another section of the country an aged banker running a small institution was in the habit of computing interest himself.

Having arrived at what an account was entitled to, say $24.50, he would sometimes say:

"That's too much for him; I guess I will make that $20.50."

By what name should such a practice be characterized?

And by what means could the knowledge of such an unprincipled practice be kept from the public?

These practices, of course, hurt banking, and hurt a community, but we think the greatest loser is the bank and the individual responsible for them.

Too Anxious for Business

DO not be so anxious for trust company business as to cut prices to get it, for even with a fair schedule of fees there are chances enough of some unforeseen element entering in and producing a loss instead of a profit.

One of the many mergers which have taken place in the last few years revealed a case where over-anxiety to procure business resulted in an estate being brought into the bank under an agreement which has caused a loss—a loss so large that it wipes out the profits of that department.

It is assumed that this business might have been obtained on a more equitable basis, but someone was so anxious to get it that he over-reached himself.

The secret of driving any bargain is to know which of the two parties to the bargain is most anxious to make it. If the trust company is more anxious than the customer, then the trust company may assume business that may prove to be unprofitable business, or even business that may take the profits from other accounts.

Some of the fiduciary associations have schedules of fees for fiduciary operations. Where there is no fiduciary association there might well be an agreement between trust companies and banks having trust powers as to what are fair and reasonable charges—and then strictly adhere to the schedule, remembering when trust company business is obtained that always there is the possibility of some unknown and unsuspected factor developing to cut into the profits or even to threaten or impose a loss!

Too often it has happened that what at the outset seemed to be a case that could be plainly seen from start to finish has suddenly taken on an ugly aspect.

Is It Artificial?

AMID all this concern over the changes that are taking place in banking let it not be forgotten that this is a world of change, and a world of progress.

Nothing remains the same from day to day. With all the rapid changes that are going forward in practically every human activity banking could not, even if it would, remain fixed and unchanging. If it did, the world would leave banking behind. Perhaps one reason why there has been so many encroachments on what in other days might have been regarded as being exclusively in the field of banking is that banking itself did not change enough.

Running through the discussion of the transformations now in progress in banking there is often a note indicating someone's belief that it is all artificial.

But is the unrest artificial? Or is it due to the influence of natural economic movements?

Stage drivers looked with disdain on the coming of the railroad; old sailors had a contempt for the steam driven vessel; artistry was thought to have been doomed when machine weaving came in—and so we may go on through almost every step of progress in any direction. Banking always concerned over the welfare of its customers—always going along with them may too often perhaps have overlooked itself.

In the preceding pages of the JOURNAL there is a wealth of thought and of research on many features of banking. Whether the reader agrees or disagrees with the views of the many bankers that are given therein, this much is certain:

There is abundant stimulus for the thoughtful banker, and there is to be found therein, many a money-making suggestion by which the reader may profit as the world moves on!

The Supervisors' View

BANK commissioners from forty-eight states met in San Francisco for the annual convention of the National Association of Supervisors of State Banks just prior to the Fifty-fifth Annual Convention of the American Bankers Association. The state supervisors as well as the bankers were concerned with the future of unit banking in this country.

A. J. Veigel, of Minnesota, president of the association of supervisors, summed up the views of a state official as follows:

"Our independent unit banking system has undoubtedly done more than everything else put together to develop our country and place it in the enviable world position it is in today.

"We would not like to see branch or chain or group banking take the place of unit banks.

"The marked present tendency toward branch or group banking is at least partially due to the numerous failures of unit banks during the last few years. It is, therefore, squarely up to the unit bankers to do whatever is necessary to make their banks safe for the depositors.

"We believe that most people would rather do business with a local independent bank, if the safety question is eliminated."